Community Bankers Trust Corp
Form 10-Q
May 09, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2014

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _________ to _________

Commission File Number: 001-32590

COMMUNITY BANKERS TRUST CORPORATION

(Exact name of registrant as specified in its charter)

Virginia		**20-2652949**
(State or other jurisdiction of incorporation or organization)		**(I.R.S. Employer Identification No.)**
9954 Mayland Drive, Suite 2100 Richmond, Virginia		**23233**
(Address of principal executive offices)		**(Zip Code)**

(804) 934-9999

(Registrant s telephone number, including area code)

n/a

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

At March 31, 2014, there were 21,720,221 shares of the Company s common stock outstanding.

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COMMUNITY BANKERS TRUST CORPORATION

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PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

COMMUNITY BANKERS TRUST CORPORATION

CONSOLIDATED BALANCE SHEETS

AS OF MARCH 31, 2014 AND DECEMBER 31, 2013

(dollars in thousands)

	March 31, 2014 (Unaudited)	December 31, 2013 (Audited)
ASSETS		
Cash and due from banks	$ 11,139	$ 10,857
Interest bearing bank deposits	27,782	12,978
Total cash and cash equivalents	38,921	23,835
Securities available for sale, at fair value	271,345	265,777
Securities held to maturity, at cost (fair value of $28,316 and $30,305, respectively)	26,625	28,563
Equity securities, restricted, at cost	7,772	8,358
Total securities	305,742	302,698
Loans held for sale		100
Loans not covered by FDIC shared-loss agreements	593,610	596,173
Loans covered by FDIC shared-loss agreements	71,860	73,275
Total loans	665,470	669,448
Allowance for loan losses (non-covered loans of $10,410 and $10,444, respectively; covered loans of $484 and $484, respectively)	(10,894)	(10,928)
Net loans	654,576	658,520
FDIC indemnification asset	23,846	25,409
Bank premises and equipment, net	29,139	27,872
Other real estate owned, covered by FDIC shared-loss agreements	3,211	2,692
Other real estate owned, non-covered	5,439	6,244
Bank owned life insurance	20,956	20,795
FDIC receivable under shared-loss agreements	433	368
Core deposit intangibles, net	6,144	6,621
Other assets	13,295	14,378
Total assets	$ 1,101,702	$ 1,089,532
LIABILITIES		
Deposits:		
Noninterest bearing	$ 73,935	$ 70,132
Interest bearing	831,233	822,209
Total deposits	905,168	892,341

Federal funds purchased and securities sold under agreements to repurchase		6,000
Federal Home Loan Bank advances	76,946	77,125
Trust preferred capital notes	4,124	4,124
Other liabilities	4,817	3,283
Total liabilities	991,055	982,873
SHAREHOLDERS EQUITY		
Preferred stock (5,000,000 shares authorized, $0.01 par value; 10,680 and 10,680 shares issued and outstanding, respectively)	10,680	10,680
Warrants on preferred stock	1,037	1,037
Common stock (200,000,000 shares authorized, $0.01 par value; 21,720,221 and 21,709,096 shares issued and outstanding, respectively)	217	217
Additional paid in capital	144,747	144,656
Retained deficit	(44,163)	(45,822)
Accumulated other comprehensive loss	(1,871)	(4,109)
Total shareholders equity	110,647	106,659
Total liabilities and shareholders equity	$ 1,101,702	$ 1,089,532

See accompanying notes to unaudited consolidated financial statements

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COMMUNITY BANKERS TRUST CORPORATION

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2013

(dollars and shares in thousands, except per share data)

	Three months ended	
	March 31, 2014	March 31, 2013
Interest and dividend income		
Interest and fees on non-covered loans	$ 7,051	$ 7,511
Interest and fees on FDIC covered loans	2,961	2,659
Interest on federal funds sold		2
Interest on deposits in other banks	13	8
Interest and dividends on securities		
Taxable	1,698	1,838
Nontaxable	156	148
Total interest and dividend income	11,879	12,166
Interest expense		
Interest on deposits	1,408	1,701
Interest on short-term borrowings	1	1
Interest on other borrowed funds	161	192
Total interest expense	1,570	1,894
Net interest income	10,309	10,272
Provision for loan losses		
Net interest income after provision for loan losses	10,309	10,272
Noninterest income		
Service charges on deposit accounts	489	663
Gain on securities transactions, net	355	278
Gain on sale of other loans, net	48	
Income on bank owned life insurance	192	149
Other	217	236
Total noninterest income	1,301	1,326
Noninterest expense		
Salaries and employee benefits	3,923	3,993
Occupancy expenses	648	663
Equipment expenses	219	267
Legal fees	28	13
Professional fees	107	50
FDIC assessment	207	167
Data processing fees	494	537
FDIC indemnification asset amortization	1,498	1,501
Amortization of intangibles	477	565
Other real estate expense	283	737

Other operating expenses	1,293	1,218
Total noninterest expense	9,177	9,711
Income before income taxes	2,433	1,887
Income tax expense	709	563
Net income	$ 1,724	$ 1,324
Dividends paid on preferred stock	65	221
Accretion of discount on preferred stock		58
Net income available to common shareholders	$ 1,659	$ 1,045
Net income per common share basic	$ 0.08	$ 0.05
Net income per common share diluted	$ 0.08	$ 0.05
Weighted average number of common shares outstanding		
basic	21,729	21,682
diluted	22,055	21,839

See accompanying notes to unaudited consolidated financial statements

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COMMUNITY BANKERS TRUST CORPORATION

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2013

(dollars in thousands)

	Three months ended	
	March 31, 2014	March 31, 2013
Net income	$ 1,724	$ 1,324
Other comprehensive income (loss):		
Change in unrealized gain in investment securities	3,746	49
Tax related to unrealized gain in investment securities	(1,274)	(17)
Reclassification adjustment for gain in securities sold	(355)	(278)
Tax related to realized gain in securities sold	121	95
Total other comprehensive income (loss)	2,238	(151)
Total comprehensive income	$ 3,962	$ 1,173

See accompanying notes to unaudited consolidated financial statements

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COMMUNITY BANKERS TRUST CORPORATION

UNAUDITED CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2013

(dollars and shares in thousands)

	Preferred Stock	Warrants	Discount on Preferred Stock	Common Stock Shares	Common Stock Amount	Additional Paid in Capital	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Total
Balance January 1, 2013	$ 17,680	$ 1,037	$ (234)	21,670	$ 217	$ 144,398	$ (50,609)	$ 2,828	$ 115,317
Amortization of preferred stock warrants			58				(58)		
Issuance of common stock				13		35			35
Dividends paid on preferred stock							(221)		(221)
Issuance of stock options						30			30
Net income							1,324		1,324
Other comprehensive loss								(151)	(151)
Balance March 31, 2013	$ 17,680	$ 1,037	$ (176)	21,683	$ 217	$ 144,463	$ (49,564)	$ 2,677	$ 116,334
Balance January 1, 2014	$ 10,680	$ 1,037	$	21,709	$ 217	$ 144,656	$ (45,822)	$ (4,109)	$ 106,659
Issuance of common stock				11		41			41
Dividends paid on preferred stock							(65)		(65)
Issuance of stock options						50			50
Net income							1,724		1,724
Other comprehensive income								2,238	2,238
Balance March 31, 2014	$ 10,680	$ 1,037	$	21,720	$ 217	$ 144,747	$ (44,163)	$ (1,871)	$ 110,647

See accompanying notes to unaudited consolidated financial statements

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COMMUNITY BANKERS TRUST CORPORATION

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2013

(dollars in thousands)

	March 31, 2014	March 31, 2013
Operating activities:		
Net income	$ 1,724	$ 1,324
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and intangibles amortization	859	973
Issuance of common stock and stock options	91	65
Amortization of purchased loan premium	384	306
Deferred tax expense		563
Amortization of security premiums and accretion of discounts, net	963	1,041
Net gain on sale of loans	(48)	
Net gain on sale of securities	(355)	(278)
Net loss on sale and valuation of other real estate	263	630
Changes in assets and liabilities:		
Net decrease in loans held for sale	100	121
Decrease in other assets	1,264	1,490
Increase (decrease) in accrued expenses and other liabilities	1,534	(351)
Net cash provided by operating activities	6,779	5,884
Investing activities:		
Proceeds from available for sale securities	26,415	73,068
Proceeds from held to maturity securities	1,899	3,526
Proceeds from equity securities	586	254
Purchase of available for sale securities	(29,158)	(38,990)
Purchase of equity securities		(47)
Proceeds from sale of other real estate	596	2,279
Improvements of other real estate, net of insurance proceeds	(19)	(185)
Net decrease (increase) in loans	98	(4,022)
Principal recoveries of loans previously charged off	118	246
Purchase of premises and equipment, net	(1,653)	(7)
Purchase of bank owned life insurance investment		(5,000)
Proceeds from sale of loans	2,841	
Net cash provided by investing activities	1,723	31,122
Financing activities:		
Net increase (decrease) in noninterest bearing and interest bearing demand deposits	12,828	(32,260)
Net decrease in federal funds purchased and securities sold under agreements to repurchase	(6,000)	(4,420)
Net decrease in Federal Home Loan Bank borrowings	(179)	(174)
Cash dividends paid	(65)	(221)
Net cash provided by (used in) financing activities	6,584	(37,075)
Net increase (decrease) in cash and cash equivalents	15,086	(69)

Cash and cash equivalents:				
Beginning of period	$	23,835	$	24,137
End of period	$	38,921	$	24,068

		March 31, 2014		March 31, 2013
Supplemental disclosures of cash flow information:				
Interest paid	$	1,495	$	1,996
Income taxes paid		115		
Transfers of loans to other real estate owned property		550		756

See accompanying notes to unaudited consolidated financial statements

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COMMUNITY BANKERS TRUST CORPORATION

Notes to Unaudited Consolidated Financial Statements

1. NATURE OF BANKING ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Community Bankers Trust Corporation (the Company) is a bank holding company that was originally incorporated in 2005. On January 1, 2014, the Company completed a reincorporation from Delaware, its original state of incorporation, to Virginia. The form of the reincorporation was the merger of the then existing Delaware corporation into a newly created Virginia corporation. The Company retained the same name and conducts business in the same manner as before the reincorporation.

The Company is headquartered in Richmond, Virginia and is the holding company for Essex Bank (the Bank), a Virginia state bank with 21 full-service offices, 14 of which are in Virginia and seven of which are in Maryland. The Bank also operates two loan production offices in Virginia. The Company relocated its corporate headquarters on March 31, 2014. The Bank opened a new branch office in Annapolis, Maryland on March 25, 2014 and a branch office at its new headquarters in Richmond, Virginia on April 7, 2014.

The Bank was established in 1926. The Bank engages in a general commercial banking business and provides a wide range of financial services primarily to individuals and small businesses, including individual and commercial demand and time deposit accounts, commercial and industrial loans, consumer and small business loans, real estate and mortgage loans, investment services, on-line and mobile banking products, and safe deposit box facilities.

Financial Statements

The consolidated statements presented include accounts of the Company and the Bank, its wholly-owned subsidiary. All material intercompany balances and transactions have been eliminated. The statements should be read in conjunction with the Company s consolidated financial statements and the accompanying notes to consolidated financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2013. The accounting and reporting policies of the Company conform to generally accepted accounting principles (GAAP) and to the general practices within the banking industry. The interim financial statements have not been audited; however, in the opinion of management, all adjustments, consisting of normal accruals, were made that are necessary to present fairly the balance sheet of the Company as of March 31, 2014, and the statements of income, comprehensive income, changes in shareholders equity and cash flows for the three months ended March 31, 2014. Results for the three month period ended March 31, 2014 are not necessarily indicative of the results that may be expected for the year ended December 31, 2014.

The financial information contained within the statements is, to a significant extent, financial information that is based on measures of the financial effects of transactions and events that have already occurred. A variety of factors could affect the ultimate value that is obtained when either earning income, recognizing an expense, recovering an asset or relieving a liability. The Company uses historical loss factors as one factor in determining the inherent loss that may be present in its loan portfolio. Actual losses could differ significantly from the historical factors that the Company uses. In addition, GAAP itself may change from one previously acceptable method to another method. Although the economics of the Company s transactions would be the same, the timing of events that would impact its transactions could change.

Certain reclassifications have been made to prior period balances to conform to the current period presentation.

In preparing these financial statements, the Company has evaluated subsequent events and transactions for potential recognition or disclosure through the date the financial statements were issued.

Recent Accounting Pronouncements

In January 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-04, *Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40) - Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure.* Although current guidance indicates that a creditor should reclassify a collateralized mortgage loan as other real estate owned when it determines that there has been *in substance a repossession or foreclosure* by the creditor, that is, the creditor receives *physical possession* of the debtor s assets *regardless of whether formal foreclosure proceedings take place,* the terms *in substance a repossession or*

foreclosure and *physical possession* are not defined in the accounting literature. This has resulted in diversity about when a creditor should derecognize the loan receivable and recognize the real estate property. The objective of the amendments in this Update is to reduce diversity by clarifying when an in substance repossession or foreclosure occurs. The amendments state that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential

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COMMUNITY BANKERS TRUST CORPORATION

Notes to Unaudited Consolidated Financial Statements

real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments are effective for public business entities for annual periods and interim periods within those annual periods beginning after December 15, 2014. Early adoption is permitted. The Company currently records foreclosures in accordance with this guidance; therefore, no changes are necessary for adoption.

Also in January 2014, the FASB issued ASU No. 2014-01, *Investments - Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects (a consensus of the FASB Emerging Issues Task Force).* The amendments in this ASU apply to all reporting entities that invest in qualified affordable housing projects through limited liability entities that are flow through entities for tax purposes. Currently, an investor that invests in a qualified affordable housing project may elect to account for that investment using the effective yield method. Those not electing the effective yield method would account for the investment using the equity method or cost method. The Task Force received stakeholder feedback indicating that certain of the required conditions for the effective yield method are overly restrictive and thus prevent many investments in qualified affordable housing projects from qualifying for the use of this method. Those stakeholders stated that presenting the investment performance net of taxes as a component of income tax expense (benefit) as prescribed by the effective yield method more fairly represents the economics and provides users with a better understanding of the returns from such investments than the equity or cost methods.

The amendments in this ASU eliminate the effective yield election and permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). Those not electing the proportional amortization method would account for the investment using the equity method or cost method. The decision to apply the proportional amortization method of accounting is an accounting policy decision that should be applied consistently to all qualifying affordable housing project investments rather than a decision to be applied to individual investments. A reporting entity should disclose information that enables users of its financial statements to understand the nature of its investments in qualified affordable housing projects, and the effect of the measurement of its investments in qualified affordable housing projects and the related tax credits on its financial position and results of operations. The amendments in this ASU should be applied retrospectively to all periods presented. The amendments in this ASU are effective for public business entities for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2014. Early adoption is permitted. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

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Notes to Unaudited Consolidated Financial Statements

2. SECURITIES

Amortized costs and fair values of securities available for sale and held to maturity at March 31, 2014 and December 31, 2013 were as follows (dollars in thousands):

	March 31, 2014			
		Gross Unrealized		
	Amortized Cost	Gains	Losses	Fair Value
Securities Available for Sale				
U.S. Treasury issue and other U.S. Gov t agencies	$ 107,485	$ 108	$ (965)	$ 106,628
U.S. Gov t sponsored agencies				
State, county and municipal	133,226	1,970	(3,332)	131,864
Corporate and other bonds	5,502	28	(40)	5,490
Mortgage backed U.S. Gov t agencies	2,602	20	(145)	2,477
Mortgage backed U.S. Gov t sponsored agencies	25,126	19	(259)	24,886
Total Securities Available for Sale	$ 273,941	$ 2,145	$ (4,741)	$ 271,345
Securities Held to Maturity				
State, county and municipal	$ 9,069	$ 700	$	$ 9,769
Mortgage backed U.S. Gov t agencies	6,202	372		6,574
Mortgage backed U.S. Gov t sponsored agencies	11,354	619		11,973
Total Securities Held to Maturity	$ 26,625	$ 1,691	$	$ 28,316

	December 31, 2013			
		Gross Unrealized		
	Amortized Cost	Gains	Losses	Fair Value
Securities Available for Sale				
U.S. Treasury issue and other U.S. Gov t agencies	$ 99,789	$ 165	$ (967)	$ 98,987
U.S. Gov t sponsored agencies	487		(1)	486
State, county and municipal	138,884	1,297	(6,085)	134,096
Corporate and other bonds	6,369	27	(47)	6,349
Mortgage backed U.S. Gov t agencies	3,608	29	(198)	3,439
Mortgage backed U.S. Gov t sponsored agencies	22,631	69	(280)	22,420
Total Securities Available for Sale	$ 271,768	$ 1,587	$ (7,578)	$ 265,777
Securities Held to Maturity				
State, county and municipal	$ 9,385	$ 718	$	$ 10,103
Mortgage backed U.S. Gov t agencies	6,604	398		7,002
Mortgage backed U.S. Gov t sponsored agencies	12,574	626		13,200
Total Securities Held to Maturity	$ 28,563	$ 1,742	$	$ 30,305

The amortized cost and fair value of securities at March 31, 2014 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations without any penalties (dollars in thousands):

	Held to Maturity		Available for Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 1,913	$ 1,942	$ 19,962	$ 19,894
Due after one year through five years	23,682	25,219	45,381	45,428
Due after five years through ten years	1,030	1,155	154,269	153,029
Due after ten years			54,329	52,994
Total securities	$ 26,625	$ 28,316	$ 273,941	$ 271,345

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COMMUNITY BANKERS TRUST CORPORATION

Notes to Unaudited Consolidated Financial Statements

Proceeds from sales of securities available for sale were $21.7 million and $24.8 million during the three months ended March 31 2014 and 2013, respectively. Gains and losses on the sale of securities are determined using the specific identification method. Gross realized gains and losses on sales of securities available for sale during the periods were as follows (dollars in thousands):

	Three Months Ended	
	March 31, 2014	March 31, 2013
Gross realized gains	$ 406	$ 321
Gross realized losses	(51)	(43)
Net securities gains	$ 355	$ 278

In estimating other than temporary impairment (OTTI) losses, management considers the length of time and the extent to which the fair value has been less than cost, the financial condition and short-term prospects for the issuer, and the intent and ability of management to hold its investment for a period of time to allow a recovery in fair value. There were no investments held that had OTTI losses for the three months ended March 31, 2014 and 2013.

The fair value and gross unrealized losses for securities available for sale, segregated by the length of time that individual securities have been in a continuous gross unrealized loss position, at March 31, 2014 and December 31, 2013 were as follows (dollars in thousands):

	March 31, 2014					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasury issue and other U.S. Gov t agencies	$ 62,299	$ (635)	$ 31,123	$ (330)	$ 93,422	$ (965)
State, county and municipal	69,003	(2,603)	9,619	(729)	78,622	(3,332)
Corporate and other bonds	3,282	(40)			3,282	(40)
Mortgage backed U.S. Gov t agencies	1,852	(145)			1,852	(145)
Mortgage backed U.S. Gov t sponsored agencies	17,440	(229)	2,188	(30)	19,628	(259)
Total	$ 153,876	$ (3,652)	$ 42,930	$ (1,089)	$ 196,806	$ (4,741)

	December 31, 2013					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasury issue and other U.S. Gov t agencies	$ 35,873	$ (531)	$ 37,638	$ (436)	$ 73,511	$ (967)
U.S. Gov t sponsored agencies	486	(1)			486	(1)
State, county and municipal	92,010	(5,343)	6,445	(742)	98,455	(6,085)
Corporate and other bonds	3,332	(42)	991	(5)	4,323	(47)
Mortgage backed U.S. Gov t agencies	2,767	(198)			2,767	(198)
Mortgage backed U.S. Gov t sponsored agencies	14,572	(258)	1,557	(22)	16,129	(280)

Total	$ 149,040	$ (6,373)	$ 46,631	$ (1,205)	$ 195,671	$ (7,578)

The unrealized losses (impairments) in the investment portfolio at March 31, 2014 and December 31, 2013 are generally a result of market fluctuations that occur daily. The unrealized losses are from 219 securities at March 31, 2014. Of those, 215 are investment grade, have U.S. government agency guarantees, or are backed by the full faith and credit of local municipalities throughout the United States. Four investment grade corporate obligations comprise the remaining securities with unrealized losses at March 31, 2014. The Company considers the reason for impairment, length of impairment and ability to hold until the full value is recovered in determining if the impairment is temporary in nature. Based on this analysis, the Company has determined these impairments to be temporary in nature. The Company does not intend to sell and it is more likely than not that the Company will not be required to sell these securities until they recover in value.

Market prices are affected by conditions beyond the control of the Company. Investment decisions are made by the management group of the Company and reflect the overall liquidity and strategic asset/liability objectives of the Company. Management analyzes the securities portfolio frequently and manages the portfolio to provide an overall positive impact to the Company s income statement and balance sheet.

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Notes to Unaudited Consolidated Financial Statements

Securities with amortized costs of $72.8 million and $109.1 million at March 31, 2014 and December 31, 2013, respectively, were pledged to secure public deposits and for other purposes required or permitted by law. At each of March 31, 2014 and December 31, 2013, there were no securities purchased from a single issuer, other than U.S. Treasury issue and other U.S. Government agencies that comprised more than 10% of the consolidated shareholders equity.

3. LOANS NOT COVERED BY FDIC SHARED-LOSS AGREEMENT (NON-COVERED LOANS) AND RELATED ALLOWANCE FOR LOAN LOSSES

The Company s non-covered loans at March 31, 2014 and December 31, 2013 were comprised of the following (dollars in thousands):

	March 31, 2014		December 31, 2013	
	Amount	% of Non-Covered Loans	Amount	% of Non-Covered Loans
Mortgage loans on real estate:				
Residential 1-4 family	$ 146,069	24.60%	$ 144,382	24.21%
Commercial	254,666	42.89	247,284	41.47
Construction and land development	54,914	9.25	55,278	9.27
Second mortgages	6,623	1.12	6,854	1.15
Multifamily	35,528	5.98	35,774	6.00
Agriculture	8,134	1.37	9,565	1.60
Total real estate loans	505,934	85.21	499,137	83.70
Commercial loans	80,942	13.63	90,142	15.12
Consumer installment loans	5,492	0.92	5,623	0.94
All other loans	1,430	0.24	1,435	0.24
Gross loans	593,798	100.00%	596,337	100.00%
Less unearned income on loans	(188)		(164)	
Non-covered loans, net of unearned income	$ 593,610		$ 596,173	

The Company held $31.2 million and $38.5 million in balances of loans guaranteed by the United States Department of Agriculture (USDA), which are included in various categories in the table above, at March 31, 2014 and December 31, 2013, respectively. As these loans are 100% guaranteed by the USDA, no loan loss provision is required. These loan balances included an unamortized purchase premium of $1.9 million and $2.5 million at March 31, 2014 and December 31, 2013, respectively. Unamortized purchase premium is recognized as an adjustment of the related loan yield on a straight line basis which is substantially equivalent to the results obtained using the effective interest method.

At March 31, 2014 and December 31, 2013, the Company s allowance for credit losses was comprised of the following: (i) specific valuation allowances calculated in accordance with FASB Accounting Standards Codification (ASC) 310, *Receivables,* (ii) general valuation allowances calculated in accordance with FASB ASC 450, *Contingencies*, based on economic conditions and other qualitative risk factors, and (iii) historical valuation allowances calculated using historical loan loss experience. Management identified loans subject to impairment in accordance with ASC 310.

Interest income on nonaccrual loans, if recognized, is recorded using the cash basis method of accounting. Cash basis income of $139,000 was recognized during the three months ended March 31, 2014. There were no significant amounts recognized during the three months ended

March 31 2013. For the three months ended March 31, 2014 and 2013, estimated interest income of $261,000 and $350,000, respectively, would have been recorded if all such loans had been accruing interest according to their original contractual terms.

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The following table summarizes information related to impaired loans as of March 31, 2014 (dollars in thousands):

	Recorded Investment [(1)]	Unpaid Principal Balance [(2)]	Related Allowance
With an allowance recorded:			
Mortgage loans on real estate:			
Residential 1-4 family	$ 3,507	$ 3,883	$ 1,023
Commercial	1,678	1,750	463
Construction and land development	4,169	5,320	514
Second mortgages	225	226	48
Multifamily			
Agriculture			
Total real estate loans	9,579	11,179	2,048
Commercial loans	57	701	12
Consumer installment loans	90	91	19
All other loans			
Subtotal impaired loans with a valuation allowance	9,726	11,971	2,079
With no related allowance recorded:			
Mortgage loans on real estate:			
Residential 1-4 family	1,179	1,224	
Commercial	1,781	2,125	
Construction and land development	1,738	4,356	
Second mortgages			
Multifamily			
Agriculture			
Total real estate loans	4,698	7,705	
Commercial loans			
Consumer installment loans	5	6	
All other loans			
Subtotal impaired loans without a valuation allowance	4,703	7,711	
Total:			
Mortgage loans on real estate:			
Residential 1-4 family	4,686	5,107	1,023
Commercial	3,459	3,875	463
Construction and land development	5,907	9,676	514
Second mortgages	225	226	48
Multifamily			
Agriculture			

Total real estate loans	14,277	18,884	2,048
Commercial loans	57	701	12
Consumer installment loans	95	97	19
All other loans			
Total impaired loans	$ 14,429	$ 19,682	$ 2,079

(1) The amount of the investment in a loan, which is not net of a valuation allowance, but which does reflect any direct write-down of the investment

(2) The contractual amount due, which reflects paydowns applied in accordance with loan documents, but which does not reflect any direct write-downs

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The following table summarizes information related to impaired loans as of December 31, 2013 (dollars in thousands):

	Recorded Investment [1]	Unpaid Principal Balance [2]	Related Allowance
With an allowance recorded:			
Mortgage loans on real estate:			
Residential 1-4 family	$ 3,485	$ 3,739	$ 881
Commercial	920	1,091	150
Construction and land development	4,148	5,298	508
Second mortgages	225	226	40
Multifamily			
Agriculture			
Total real estate loans	8,778	10,354	1,579
Commercial loans	127	794	16
Consumer installment loans	49	51	9
All other loans			
Subtotal impaired loans with a valuation allowance	8,954	11,199	1,604
With no related allowance recorded:			
Mortgage loans on real estate:			
Residential 1-4 family	1,189	1,228	
Commercial	1,714	1,969	
Construction and land development	1,734	4,335	
Second mortgages			
Multifamily			
Agriculture	204	222	
Total real estate loans	4,841	7,754	
Commercial loans			
Consumer installment loans	6	6	
All other loans			
Subtotal impaired loans without a valuation allowance	4,847	7,760	
Total:			
Mortgage loans on real estate:			
Residential 1-4 family	4,674	4,967	881
Commercial	2,634	3,060	150
Construction and land development	5,882	9,633	508
Second mortgages	225	226	40
Multifamily			
Agriculture	204	222	
Total real estate loans	13,619	18,108	1,579

Commercial loans	127	794	16
Consumer installment loans	55	57	9
All other loans			
Total impaired loans	$ 13,801	$ 18,959	$ 1,604

(1) The amount of the investment in a loan, which is not net of a valuation allowance, but which does reflect any direct write-down of the investment

(2) The contractual amount due, which reflects paydowns applied in accordance with loan documents, but which does not reflect any direct write-downs

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The following table summarizes the average recorded investment of impaired loans for the three months ended March 31, 2014 and 2013 (dollars in thousands):

	Three months ended	
	March 31, 2014	**March 31, 2013**
Mortgage loans on real estate:		
Residential 1-4 family	$ 4,680	$ 6,775
Commercial	3,046	4,835
Construction and land development	5,895	9,064
Second mortgages	225	172
Multifamily		
Agriculture	102	242
Total real estate loans	13,948	21,088
Commercial loans	92	397
Consumer installment loans	76	91
All other loans		
Total impaired loans	$ 14,116	$ 21,576

The majority of impaired loans are also nonaccruing for which no interest income was recognized during each of the three months ended March 31, 2014 and 2013. No significant amounts of interest income were recognized on accruing impaired loans for each of the three months ended March 31, 2014 and 2013.

The following table presents non-covered nonaccrual loans by category as of March 31, 2014 and December 31, 2013 (dollars in thousands):

	March 31, 2014	**December 31, 2013**
Mortgage loans on real estate:		
Residential 1-4 family	$ 4,153	$ 4,229
Commercial	2,208	1,382
Construction and land development	5,907	5,882
Second mortgages	225	225
Multifamily		
Agriculture		205
Total real estate loans	12,493	11,923
Commercial loans	57	127
Consumer installment loans	95	55
All other loans		
Total loans	$ 12,645	$ 12,105

Troubled debt restructures and some substandard loans still accruing interest are loans that management expects to ultimately collect all principal and interest due, but not under the terms of the original contract. A reconciliation of impaired loans to nonaccrual loans at March 31, 2014 and December 31, 2013, is set forth in the table below (dollars in thousands):

	March 31, 2014	December 31, 2013
Nonaccruals	$ 12,645	$ 12,105
Trouble debt restructure and still accruing	1,691	1,696
Substandard and still accruing	93	
Total impaired	$ 14,429	$ 13,801

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The following tables present an age analysis of past due status of non-covered loans by category as of March 31, 2014 and December 31, 2013 (dollars in thousands):

	March 31, 2014					
	30-89 Days Past Due	90 Days Past Due	Total Past Due	Current	Total Loans	Recorded Investment 90 Days Past Due and Accruing
Mortgage loans on real estate:						
Residential 1-4 family	$ 1,352	$ 4,153	$ 5,505	$ 140,564	$ 146,069	$
Commercial	347	2,208	2,555	252,111	254,666	
Construction and land development		5,907	5,907	49,007	54,914	
Second mortgages		225	225	6,398	6,623	
Multifamily				35,528	35,528	
Agriculture				8,134	8,134	
Total real estate loans	1,699	12,493	14,192	491,742	505,934	
Commercial loans	245	57	302	80,640	80,942	
Consumer installment loans	13	95	108	5,384	5,492	
All other loans				1,430	1,430	
Total loans	$ 1,957	$ 12,645	$ 14,602	$ 579,196	$ 593,798	$

	December 31, 2013					
	30-89 Days Past Due	90 Days Past Due	Total Past Due	Current	Total Loans	Recorded Investment 90 Days Past Due and Accruing
Mortgage loans on real estate:						
Residential 1-4 family	$ 1,455	$ 4,229	$ 5,684	$ 138,698	$ 144,382	$
Commercial		1,382	1,382	245,902	247,284	
Construction and land development	242	5,882	6,124	49,154	55,278	
Second mortgages		225	225	6,629	6,854	
Multifamily				35,774	35,774	
Agriculture		205	205	9,360	9,565	
Total real estate loans	1,697	11,923	13,620	485,517	499,137	
Commercial loans	115	127	242	89,900	90,142	
Consumer installment loans	58	55	113	5,510	5,623	
All other loans				1,435	1,435	
Total loans	$ 1,870	$ 12,105	$ 13,975	$ 582,362	$ 596,337	$

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Activity in the allowance for loan losses on non-covered loans for the three months ended March 31, 2014 and 2013 is presented in the following tables (dollars in thousands):

	December 31, 2013	Provision Allocation	Charge offs	Recoveries	March 31, 2014
Mortgage loans on real estate:					
Residential 1-4 family	$ 3,853	$ (43)	$ (110)	$ 7	$ 3,707
Commercial	2,333	562		69	2,964
Construction and land development	2,252	(359)		1	1,894
Second mortgages	101	12		1	114
Multifamily	151	57			208
Agriculture	81	(24)			57
Total real estate loans	8,771	205	(110)	78	8,944
Commercial loans	1,546	(218)		4	1,332
Consumer installment loans	101	15	(42)	36	110
All other loans	26	(2)			24
Total loans	$ 10,444	$	$ (152)	$ 118	$ 10,410

	December 31, 2012	Provision Allocation	Charge offs	Recoveries	March 31, 2013
Mortgage loans on real estate:					
Residential 1-4 family	$ 3,985	$ 11	$ (34)	$ 46	$ 4,008
Commercial	2,482	506	(579)	5	2.414
Construction and land development	3,773	(565)		149	3,357
Second mortgages	142	(41)		4	105
Multifamily	303	13			316
Agriculture	61	1			62
Total real estate loans	10,746	(75)	(613)	204	10,262
Commercial loans	1,961	86	(252)	21	1,816
Consumer installment loans	195	(21)	(43)	21	152
All other loans	18	10			28
Total loans	$ 12,920	$	$ (908)	$ 246	$ 12,258

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The following tables present information on the non-covered loans evaluated for impairment in the allowance for loan losses as of March 31, 2014 and December 31, 2013 (dollars in thousands):

	March 31, 2014					
	Allowance for Loan Losses			Recorded Investment in Loans		
	Individually Evaluated for Impairment [1]	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment [1]	Collectively Evaluated for Impairment	Total
Mortgage loans on real estate:						
Residential 1-4 family	$ 1,069	$ 2,638	$ 3,707	$ 7,099	$ 138,970	$ 146,069
Commercial	495	2,469	2,964	8,609	246,057	254,666
Construction and land development	557	1,337	1,894	7,055	47,859	54,914
Second mortgages	50	64	114	254	6,369	6,623
Multifamily		208	208		35,528	35,528
Agriculture		57	57		8,134	8,134
Total real estate loans	2,171	6,773	8,944	23,017	482,917	505,934
Commercial loans	15	1,317	1,332	119	80,823	80,942
Consumer installment loans	19	91	110	102	5,390	5,492
All other loans		24	24		1,430	1,430
Total loans	$ 2,205	$ 8,205	$ 10,410	$ 23,238	$ 570,560	$ 593,798

	December 31, 2013					
	Allowance for Loan Losses			Recorded Investment in Loans		
	Individually Evaluated for Impairment [1]	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment [1]	Collectively Evaluated for Impairment	Total
Mortgage loans on real estate:						
Residential 1-4 family	$ 923	$ 2,930	$ 3,853	$ 6,708	$ 137,674	$ 144,382
Commercial	200	2,133	2,333	8,016	239,268	247,284
Construction and land development	651	1,601	2,252	8,619	46,659	55,278
Second mortgages	42	59	101	254	6,600	6,854
Multifamily		151	151		35,774	35,774
Agriculture		81	81	205	9,360	9,565
Total real estate loans	1,816	6,955	8,771	23,802	475,335	499,137
Commercial loans	18	1,528	1,546	192	89,950	90,142
Consumer installment loans	9	92	101	57	5,566	5,623
All other loans		26	26		1,435	1,435
Total loans	$ 1,843	$ 8,601	$ 10,444	$ 24,051	$ 572,286	$ 596,337

(1) The category Individually Evaluated for Impairment includes loans individually evaluated for impairment and determined not to be impaired. These loans totaled $8.8 million and $10.3 million at March 31, 2014 and December 31, 2013, respectively. The allowance for loans losses allocated to these loans was $126,000 and $239,000 at March 31, 2014 and December 31, 2013, respectively.

Non-covered loans are monitored for credit quality on a recurring basis. These credit quality indicators are defined as follows:

Pass - A pass loan is not adversely classified, as it does not display any of the characteristics for adverse classification. This category includes purchased loans that are 100% guaranteed by U.S. Government agencies of $31.2 million and $38.5 million at March 31, 2014 and December 31, 2013, respectively.

Special Mention - A special mention loan has potential weaknesses that deserve management s close attention. If left uncorrected, such potential weaknesses may result in deterioration of the repayment prospects or collateral position at some future date. Special mention loans are not adversely classified and do not warrant adverse classification.

Substandard - A substandard loan is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified as substandard generally have a well defined weakness, or weaknesses, that jeopardize the liquidation of the debt. These loans are characterized by the distinct possibility of loss if the deficiencies are not corrected.

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Doubtful - A doubtful loan has all the weaknesses inherent in a loan classified as substandard with the added characteristics that the weaknesses make collection or liquidation in full highly questionable and improbable, on the basis of currently existing facts, conditions, and values.

The following tables present the composition of non-covered loans by credit quality indicator at March 31, 2014 and December 31, 2013 (dollars in thousands):

	March 31, 2014				
	Pass	**Special Mention**	**Substandard**	**Doubtful**	**Total**
Mortgage loans on real estate:					
Residential 1-4 family	$ 129,052	$ 9,918	$ 7,099	$	$ 146,069
Commercial	234,268	13,041	7,357		254,666
Construction and land development	46,578	1,303	7,033		54,914
Second mortgages	5,489	880	254		6,623
Multifamily	35,528				35,528
Agriculture	8,134				8,134
Total real estate loans	459,049	25,142	21,743		505,934
Commercial loans	69,227	11,596	119		80,942
Consumer installment loans	5,354	37	101		5,492
All other loans	1,430				1,430
Total loans	$ 535,060	$ 36,775	$ 21,963	$	$ 593,798

	December 31, 2013				
	Pass	**Special Mention**	**Substandard**	**Doubtful**	**Total**
Mortgage loans on real estate:					
Residential 1-4 family	$ 129,482	$ 8,193	$ 6,707	$	$ 144,382
Commercial	229,168	11,348	6,768		247,284
Construction and land development	44,482	2,178	8,618		55,278
Second mortgages	6,172	428	254		6,854
Multifamily	35,774				35,774
Agriculture	9,361		204		9,565
Total real estate loans	454,439	22,147	22,551		499,137
Commercial loans	87,208	2,742	192		90,142
Consumer installment loans	5,344	222	57		5,623
All other loans	1,435				1,435
Total loans	$ 548,426	$ 25,111	$ 22,800	$	$ 596,337

In accordance with FASB ASU 2011-02, *Receivables (Topic 310): A Creditor s Determination of Whether a Restructuring is a Troubled Debt Restructuring,* the Company assesses all loan modifications to determine whether they are considered troubled debt restructurings (TDRs) under the guidance. During the three months ended March 31, 2014 and 2013, there were no loans modified that were considered to be TDRs.

A loan is considered to be in default if it is 90 days or more past due. There were no TDRs that had been restructured during the previous 12 months that resulted in default during either of the three months ended March 31, 2014 and 2013.

At March 31, 2014, the Company had 1-4 family mortgages in the amount of $137.2 million pledged as collateral to the Federal Home Loan Bank for a total borrowing capacity of $99.1 million.

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4. LOANS COVERED BY FDIC SHARED-LOSS AGREEMENTS (COVERED LOANS) AND RELATED ALLOWANCE FOR LOAN LOSSES

On January 30, 2009, the Company entered into a Purchase and Assumption Agreement with the Federal Deposit Insurance Corporation (FDIC) to assume all of the deposits and certain other liabilities and acquire substantially all assets of Suburban Federal Savings Bank (SFSB). The Company is applying the provisions of FASB ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*, to all loans acquired in the SFSB transaction (the covered loans). Of the total $198.3 million in loans acquired, $49.1 million met the criteria of FASB ASC 310-30. These loans, consisting mainly of construction loans, were deemed impaired at the acquisition date. The remaining $149.1 million of loans acquired, comprised mainly of residential 1-4 family, were analogized to meet the criteria of FASB ASC 310-30. Analysis of this portfolio revealed that SFSB utilized weak underwriting and documentation standards, which led the Company to believe that significant losses were probable given the economic environment at the time.

As of March 31, 2014 and December 31, 2013, the outstanding contractual balance of the covered loans was $113.8 million and $117.0 million, respectively. The carrying amount, by loan type, as of these dates is as follows (dollars in thousands):

	March 31, 2014		December 31, 2013	
	Amount	% of Covered Loans	Amount	% of Covered Loans
Mortgage loans on real estate:				
Residential 1-4 family	$ 63,531	88.41%	$ 64,610	88.18%
Commercial	1,298	1.81	1,389	1.90
Construction and land development	2,935	4.08	2,940	4.01
Second mortgages	3,827	5.33	3,898	5.32
Multifamily	269	0.37	266	0.36
Agriculture			172	0.23
Total real estate loans	71,860	100.00	73,275	100.00
Total covered loans	$ 71,860	100.00%	$ 73,275	100.00%

There was no activity in the allowance for loan losses on covered loans for the three months ended March 31, 2014 and 2013.

The following table presents information on the covered loans collectively evaluated for impairment in the allowance for loan losses at March 31, 2014 and December 31, 2013 (dollars in thousands):

	March 31, 2014		December 31, 2013	
	Allowance for loan losses	Recorded investment in loans	Allowance for loan losses	Recorded investment in loans
Mortgage loans on real estate:				
Residential 1-4 family	$ 252	$ 63,531	$ 252	$ 64,610
Commercial	232	1,298	232	1,389
Construction and land development		2,935		2,940
Second mortgages		3,827		3,898
Multifamily		269		266
Agriculture				172

Total real estate loans	484	71,860	484	73,275
Total covered loans	$ 484	$ 71,860	$ 484	$ 73,275

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The change in the accretable yield balance for the three months ended March 31, 2014 and the year ended December 31, 2013 is as follows (dollars in thousands):

Balance, January 1, 2013	$ 54,144
Accretion	(11,936)
Reclassification from nonaccretable Yield	9,307
Balance, December 31, 2013	51,515
Accretion	(2,961)
Reclassification from nonaccretable Yield	(862)
Balance, March 31, 2014	$ 47,692

The covered loans were not classified as nonperforming assets as of March 31, 2014, as the loans are accounted for on a pooled basis, and interest income, through accretion of the difference between the carrying amount of the loans and the expected cash flows, is being recognized on all covered loans.

5. FDIC AGREEMENTS AND FDIC INDEMNIFICATION ASSET

On January 30, 2009, the Company entered into a Purchase and Assumption Agreement with the FDIC to assume all of the deposits and certain other liabilities and acquire substantially all assets of SFSB. Under the shared-loss agreements that are part of that agreement, the FDIC will reimburse the Bank for 80% of losses arising from covered loans and foreclosed real estate assets, on the first $118 million in losses on such covered loans and foreclosed real estate assets, and for 95% of losses on covered loans and foreclosed real estate assets thereafter. Under the shared-loss agreements, a loss on a covered loan or foreclosed real estate is defined generally as a realized loss incurred through a permitted disposition, foreclosure, short-sale or restructuring of the covered loan or foreclosed real estate. The reimbursements for losses on single family one-to-four residential mortgage assets are to be made quarterly through March 2019, and the reimbursements for losses on other covered assets were made quarterly through March 2014. The shared-loss agreements provide for indemnification from the first dollar of losses without any threshold requirement. The reimbursable losses from the FDIC are based on the book value of the relevant loan as determined by the FDIC at the date of the transaction, January 30, 2009. New loans made after that date are not covered by the shared-loss agreements. The fair value of the shared-loss agreements is detailed below.

The Company is accounting for the shared-loss agreements as an indemnification asset pursuant to the guidance in FASB ASC 805, *Business Combinations*. The FDIC indemnification asset is required to be measured in the same manner as the asset or liability to which it relates. The FDIC indemnification asset is measured separately from the covered loans and other real estate owned assets (OREO) because it is not contractually embedded in the covered loan and OREO and is not transferable should the Company choose to dispose of them. Fair value was estimated using projected cash flows available for loss sharing based on the credit adjustments estimated for each loan pool and other real estate owned and the loss sharing percentages outlined in the shared-loss agreements with the FDIC. These cash flows were discounted to reflect the uncertainty of the timing and receipt of the loss sharing reimbursement from the FDIC.

Because the acquired loans are subject to shared-loss agreements and a corresponding indemnification asset exists to represent the value of expected payments from the FDIC, increases and decreases in loan accretable yield due to changing loss expectations will also have an impact to the valuation of the FDIC indemnification asset. Improvement in loss expectations will typically increase loan accretable yield and decrease the value of the FDIC indemnification asset and, in some instances, result in an amortizable premium on the FDIC indemnification asset. Increases in loss expectations will typically be recognized as impairment in the current period through allowance for loan losses, resulting in additional noninterest income for the amount of the increase in the FDIC indemnification asset.

In addition to the premium amortization, the balance of the FDIC indemnification asset is affected by expected payments from the FDIC. Under the terms of the shared-loss agreements, the FDIC will reimburse the Company for loss events incurred related to the covered loan portfolio. These events include such things as future writedowns due to decreases in the fair market value of OREO, net loan charge-offs and recoveries, and net gains and losses on OREO sales.

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As discussed above, the shared-loss agreement for assets other than one-to-four single family residential mortgages expired March 31, 2014. The FDIC indemnification asset related to those assets was zero at March 31, 2014.

The following table presents the balances of the FDIC indemnification asset at March 31, 2014 and December 31, 2013 (dollars in thousands):

	Anticipated Expected Losses	Estimated Loss Sharing Value	Amortizable Premium (Discount) at Present Value	FDIC Indemnification Asset Total
January 1, 2013	$ 23,205	$ 18,564	$ 15,273	$ 33,837
Increases:				
Writedown of OREO property to FMV	344	275		275
Decreases:				
Net amortization of premium			(6,449)	(6,449)
Reclassifications to FDIC receivable:				
Net loan charge-offs and recoveries	(1,268)	(1,014)		(1,014)
OREO sales	(1,180)	(944)		(944)
Reimbursements requested from FDIC	(370)	(296)		(296)
Reforecasted Change in Anticipated Expected Losses	(7,217)	(5,774)	5,774	
December 31, 2013	$ 13,514	$ 10,811	$ 14,598	$ 25,409
Increases:				
Writedown of OREO property to FMV	21	17		17
Decreases:				
Net amortization of premium			(1,498)	(1,498)
Reclassifications to FDIC receivable:				
Net loan charge-offs and recoveries	(9)	(7)		(7)
OREO sales	(1)	(1)		(1)
Reimbursements requested from FDIC	(93)	(74)		(74)
Reforecasted Change in Anticipated Expected Losses	(6,167)	(4,935)	4,935	
March 31, 2014	$ 7,264	$ 5,811	$ 18,035	$ 23,846

6. DEPOSITS

The following table provides interest bearing deposit information, by type, as of March 31, 2014 and December 31, 2013 (dollars in thousands):

	March 31, 2014	December 31, 2013
NOW	$ 98,594	$ 102,111
MMDA	91,077	94,170
Savings	76,950	75,159
Time deposits less than $100,000	242,139	235,482

Time deposits $100,000 and over		322,473		315,287
Total interest bearing deposits	$	831,233	$	822,209

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7. ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

The following tables present activity net of tax in accumulated other comprehensive (loss) income (AOCI) for the three months ended March 31, 2014 and 2013 (dollars in thousands):

	Three months ended March 31, 2014		
	Unrealized Gain (Loss) on Securities	Defined Benefit Pension Plan	Total Other Comprehensive (Loss) Income
Beginning balance	$ (3,954)	$ (155)	$ (4,109)
Other comprehensive loss before reclassifications	2,472		2,472
Amounts reclassified from AOCI	(234)		(234)
Net current period other comprehensive loss	2,238		2,238
Ending balance	$ (1,716)	$ (155)	$ (1,871)

	Three months ended March 31, 2013		
	Unrealized Gain (Loss) on Securities	Defined Benefit Pension Plan	Total Other Comprehensive (Loss) Income
Beginning balance	$ 3,866	$ (1,038)	$ 2,828
Other comprehensive income before reclassifications	32		32
Amounts reclassified from AOCI	(183)		(183)
Net current period other comprehensive loss	(151)		(151)
Ending balance	$ 3,715	$ (1,038)	$ 2,677

The following tables present the effects of reclassifications out of accumulated other comprehensive income on line items of consolidated income for the three months ended March 31, 2014 and 2013 (dollars in thousands):

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income Three months ended March 31, 2014	March 31, 2013	Affected Line Item in the Unaudited Consolidated Statement of Income
Unrealized (gains) losses on securities available for sale	$ (355)	$ (278)	Gain on securities transactions, net
	121	95	Income tax expense
	$ (234)	$ (183)	Net of tax

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8. FAIR VALUES OF ASSETS AND LIABILITIES

FASB ASC 820, *Fair Value Measurements and Disclosures,* defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC 820 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs and also establishes a fair value hierarchy that prioritizes the valuation inputs into three broad levels. The Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Valuation is determined using model-based techniques with significant assumptions not observable in the market. These unobservable assumptions reflect the Company s own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of third party pricing services, option pricing models, discounted cash flow models and similar techniques.

FASB ASC 825, *Financial Instruments*, allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis. The Company has not made any material FASB ASC 825 elections as of March 31, 2014.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The Company utilizes fair value measurements to record adjustments to certain assets to determine fair value disclosures. Securities available for sale and loans held for sale are recorded at fair value on a recurring basis. The tables below present the recorded amount of assets and liabilities measured at fair value on a recurring basis (dollars in thousands).

	March 31, 2014			
	Total	**Level 1**	**Level 2**	**Level 3**
Investment securities available for sale				
U.S. Treasury issue and other U.S. Gov t agencies	$ 106,628	$ 95,995	$ 10,633	$
U.S. Gov t sponsored agencies				
State, county and municipal	131,864	281	131,583	
Corporate and other bonds	5,490		5,490	
Mortgage backed U.S. Gov t agencies	2,477		2,477	
Mortgage backed U.S. Gov t sponsored agencies	24,886	3,364	21,522	
Total investment securities available for sale	271,345	99,640	171,705	
Total assets at fair value	$ 271,345	$ 99,640	$ 171,705	$
Total liabilities at fair value	$	$	$	$

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	December 31, 2013			
	Total	Level 1	Level 2	Level 3
Investment securities available for sale				
U.S. Treasury issue and other U.S. Gov t agencies	$ 98,987	$ 94,935	$ 4,052	$
U.S. Gov t sponsored agencies	486		486	
State, county and municipal	134,096	2,482	131,614	
Corporate and other bonds	6,349		6,349	
Mortgage backed U.S. Gov t agencies	3,439		3,439	
Mortgage backed U.S. Gov t sponsored agencies	22,420	2,531	19,889	
Total investment securities available for sale	265,777	99,948	165,829	
Loans held for sale	100		100	
Total assets at fair value	$ 265,877	$ 99,948	$ 165,929	$
Total liabilities at fair value	$	$	$	$

Investment securities available for sale

Investment securities available for sale are recorded at fair value each reporting period. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security s credit rating, prepayment assumptions and other factors such as credit loss assumptions.

The Company utilizes a third party vendor to provide fair value data for purposes of determining the fair value of its available for sale securities portfolio. The third party vendor uses a reputable pricing company for security market data. The third party vendor has controls and edits in place for month-to-month market checks and zero pricing, and a Statement on Standards for Attestation Engagements No. 16 report is obtained from the third party vendor on an annual basis. The Company makes no adjustments to the pricing service data received for its securities available for sale.

Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, municipal bonds and corporate debt securities. Securities classified as Level 3 include asset-backed securities in less liquid markets.

Loans held for sale

The carrying amounts of loans held for sale approximate fair value.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

The Company is also required to measure and recognize certain other financial assets at fair value on a nonrecurring basis on the consolidated balance sheet. The following table presents assets measured at fair value on a nonrecurring basis as of March 31, 2014 and December 31, 2013 (dollars in thousands):

March 31, 2014

	Total	Level 1	Level 2	Level 3
Impaired loans, non-covered	$ 10,500	$	$ 2,303	$ 8,197
Other real estate owned (OREO), non-covered	5,439			5,439
Other real estate owned (OREO), covered	3,211			3,211
Total assets at fair value	$ 19,150	$	$ 2,303	$ 16,847
Total liabilities at fair value	$	$	$	$

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	December 31, 2013			
	Total	**Level 1**	**Level 2**	**Level 3**
Impaired loans, non-covered	$ 10,334	$	$ 1,791	$ 8,543
Other real estate owned (OREO), non-covered	6,244			6,244
Other real estate owned (OREO), covered	2,692			2,692
Total assets at fair value	19,270	$	$ 1,791	$ 17,479
Total liabilities at fair value	$	$	$	$

Impaired loans, non-covered

Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures the impairment in accordance with FASB ASC 310, *Receivables*. The fair value of impaired loans is estimated using one of several methods, including collateral value and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceeds the recorded investments in such loans. At March 31, 2014 and December 31, 2013, a majority of total impaired loans were evaluated based on the fair value of the collateral. The Company frequently obtains appraisals prepared by external professional appraisers for classified loans greater than $250,000 when the most recent appraisal is greater than 12 months old. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the impaired loan within Level 2.

The Company may also identify collateral deterioration based on current market sales data, including price and absorption, as well as input from real estate sales professionals and developers, county or city tax assessments, market data and on-site inspections by Company personnel. Internally prepared estimates generally result from current market data and actual sales data related to the Company s collateral or where the collateral is located. When management determines that the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the impaired loan as nonrecurring Level 3. In instances where an appraisal received subsequent to an internally prepared estimate reflects a higher collateral value, management does not revise the carrying amount. Impaired loans can also be evaluated for impairment using the present value of expected future cash flows discounted at the loan s effective interest rate. The measurement of impaired loans using future cash flows discounted at the loan s effective interest rate rather than the market rate of interest rate is not a fair value measurement and is therefore excluded from fair value disclosure requirements. Reviews of classified loans are performed by management on a quarterly basis.

Other real estate owned, covered and non-covered

Other real estate owned (OREO) assets are adjusted to fair value less estimated selling costs upon transfer of the related loans to OREO property. Subsequent to the transfer, valuations are periodically performed by management and the assets are carried at the lower of carrying value or fair value less estimated selling costs. Fair value is based upon independent market prices, appraised values of the collateral or management s estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the foreclosed asset within Level 2. When an appraised value is not available or management determines that the fair value of the collateral is further impaired below the appraised value due to such things as absorption rates and market conditions, the Company records the foreclosed asset within Level 3 of the fair value hierarchy.

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Fair Value of Financial Instruments

FASB ASC 825, *Financial Instruments*, requires disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring or nonrecurring basis. FASB ASC 825 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company.

The following reflects the fair value of financial instruments, whether or not recognized on the consolidated balance sheet, at fair value measures by level of valuation assumptions used for those assets. This table excludes financial instruments for which the carrying value approximates fair value (dollars in thousands):

	March 31, 2014				
	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Securities held to maturity	$ 26,625	$ 28,316	$	$ 28,316	$
Loans, non-covered	583,200	589,365		581,168	8,197
Loans, covered	71,376	83,994			83,994
FDIC indemnification asset	23,846	5,614			5,614
Financial liabilities:					
Interest bearing deposits	831,233	840,079		840,079	
Long-term borrowings	81,070	80,897		80,897	

	December 31, 2013				
	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Securities held to maturity	$ 28,563	$ 30,305	$	$ 30,305	$
Loans, non-covered	585,729	591,081		582,538	8,543
Loans, covered	72,791	88,693			88,693
FDIC indemnification asset	25,409	10,557			10,557
Financial liabilities:					
Interest bearing deposits	822,209	824,895		824,895	
Long-term borrowings	81,249	81,014		81,014	

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying balance sheets at amounts other than fair value as of March 31, 2014. The Company applied the provisions of FASB ASC 820 to the fair value measurements of financial instruments not recognized on the consolidated balance sheet at fair value. The provisions requiring the Company to maximize the use of observable inputs and to measure fair value using a notion of exit price were factored into the Company s selection of inputs into its established valuation techniques.

Financial Assets

Cash and cash equivalents

The carrying amounts of cash and due from banks, interest bearing bank deposits, and federal funds sold approximate fair value.

Securities held for investment

For securities held for investment, fair values are based on quoted market prices or dealer quotes.

Restricted securities

The carrying value of restricted securities approximates their fair value based on the redemption provisions of the respective issuer.

COMMUNITY BANKERS TRUST CORPORATION

Notes to Unaudited Consolidated Financial Statements

Loans held for sale

The carrying amounts of loans held for sale approximate fair value.

Loans not covered by FDIC shared-loss agreement (non-covered loans)

The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. The fair value of impaired loans is consistent with the methodology used for the FASB ASC 820 disclosure for assets recorded at fair value on a nonrecurring basis presented above.

Loans covered by FDIC shared-loss agreement (covered loans)

Fair values for covered loans are based on a discounted cash flow methodology that considers various factors including the type of loan and related collateral, classification status, term of loan and whether or not the loans are amortizing. Loans were pooled together according to similar characteristics and were treated in the aggregate when applying various valuation techniques. The discount rates used for loans are based on the rates used at acquisition (which were based on market rates for new originations of comparable loans) adjusted for any material changes in interest rates since acquisition. Increases in cash flow expectations since acquisition resulted in estimated fair value being higher than carrying value. The increase in cash flows is also reflected in a transfer from unaccretable yield to accretable yield as disclosed in Note 4.

FDIC indemnification asset

Loss sharing assets are measured separately from the related covered assets as they are not contractually embedded in the covered assets and are not transferable with the assets should the Company choose to dispose of them. Fair value is estimated using projected cash flows related to the obligations under the shared-loss agreements based on the expected reimbursements for losses and the applicable loss sharing percentages. These expected reimbursements do not include reimbursable amounts related to future covered expenditures. These cash flows were discounted to reflect the uncertainty of the timing and receipt of the loss sharing reimbursement from the FDIC. A reduction in loss expectations has resulted in the estimated fair value of the FDIC indemnification asset being lower than its carrying value. This creates a premium that is amortized over the life of the asset and is reflected in Note 5.

Accrued interest receivable

The carrying amounts of accrued interest receivable approximate fair value.

Financial Liabilities

Noninterest bearing deposits

The carrying amount of noninterest bearing deposits approximates fair value.

Interest bearing deposits

The fair value of NOW accounts, savings accounts, and certain money market deposits is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities.

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Federal funds purchased

The carrying amount of federal funds purchased approximates fair value.

Long-term borrowings

The fair values of the Company s borrowings, such as FHLB advances, are estimated using discounted cash flow analyses based on the Company s current incremental borrowing rates for similar types of borrowing arrangements.

Accrued interest payable

The carrying amounts of accrued interest payable approximate fair value.

Off-balance sheet financial instruments

The fair value of commitments to extend credit is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of stand-by letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date. The Company s off-balance sheet commitments are funded at current market rates at the date they are drawn upon. It is management s opinion that the fair value of these commitments would approximate their carrying value, if drawn upon.

The Company assumes interest rate risk (the risk that general interest rate levels will change) as a result of its normal operations. As a result, the fair values of the Company s financial instruments will change when interest rate levels change, and that change may be either favorable or unfavorable. Management attempts to match maturities of assets and liabilities to the extent believed necessary to minimize interest rate risk. However, borrowers with fixed rate obligations are less likely to prepay in a rising rate environment and more likely to prepay in a falling rate environment. Conversely, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment. Management monitors rates and maturities of assets and liabilities and attempts to minimize interest rate risk by adjusting terms of new loans and deposits and by investing in securities with terms that mitigate the Company s overall interest rate risk.

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9. EARNINGS PER COMMON SHARE

Basic earnings per common share (EPS) is computed by dividing net income or loss available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted EPS is computed using the weighted average number of common shares outstanding during the period, including the effect of all potentially dilutive common shares outstanding attributable to stock instruments (dollars and shares in thousands, except per share data):

	Net Income Available to Common Shareholders (Numerator)	Weighted Average Common Shares (Denominator)	Per Common Share Amount
For the three months ended March 31, 2014			
Shares issued		21,718	
Unissued vested restricted stock		11	
Basic EPS	$ 1,659	21,729	$ 0.08
Effect of dilutive stock awards		326	
Diluted EPS	$ 1,659	22,055	$ 0.08
For the three months ended March 31, 2013			
Shares issued		21,675	
Unissued vested restricted stock		7	
Basic EPS	$ 1,045	21,682	$ 0.05
Effect of dilutive stock awards		157	
Diluted EPS	$ 1,045	21,839	$ 0.05

Excluded from the computation of diluted earnings per common share were 37,000 common shares issuable under awards or options during the three months ended March 31, 2014, because their inclusion would be anti-dilutive. Anti-dilutive common shares issuable under awards, options or warrants of $871,000 were excluded for the three months ended March 31, 2013.

In December 2008, the Company issued 17,680 shares of its Fixed Rate Cumulative Perpetual Preferred Stock, Series A to the United States Department of Treasury in connection with the Company s participation in the Treasury s TARP Capital Purchase Program. Under the terms of the Series A Preferred Stock, prior to its redemption, as discussed below, the Company was required to pay cumulative dividends on a quarterly basis at a rate of 5% per year on such amount through the February 2014 payment. After the February 2014 payment, the dividend rate automatically increased to 9% per year. The Company could defer dividend payments, but the dividend was a cumulative dividend that accrued for payment in the future. Deferred dividends also accrued interest at the same rate as the dividend. The failure to pay dividends for six dividend periods triggered the right for the holder of the Series A Preferred Stock to appoint two directors to the Company s board.

During 2013, the Company repurchased 7,000 shares of the original 17,680 shares of Series A Preferred Stock. The Company funded the repurchase through the earnings of its banking subsidiary.

On April 23, 2014, the Company repurchased the remaining 10,680 shares of Series A Preferred Stock. The Company funded the repurchase through a term loan with SunTrust Bank. The form of the repurchase was a redemption under the terms of the TARP preferred stock. The

Company paid the Treasury $10.9 million, which represented 100% of the par value of the preferred stock repurchased plus accrued dividends with respect to such shares.

The term loan with SunTrust Bank, which has a maturity date of April 21, 2017, requires that the Company make quarterly payments of 7.5% of the initial outstanding principal, plus accrued interest, during a six-quarter period beginning with the quarter ending December 31, 2014, quarterly payments of 10% of the initial outstanding principal, plus accrued interest, during the subsequent four-quarter period and the remaining principal amount and accrued interest at maturity. As elected by the Company, the initial interest rate on the loan is three-month LIBOR plus 3.50% per annum.

The Treasury continues to hold a warrant to purchase 780,000 shares of the Company s common stock at an exercise price of $3.40.

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10. DEFINED BENEFIT PLAN

On May 31, 2008, the Company adopted the Bank of Essex noncontributory defined benefit pension plan for all full-time pre-merger Bank employees over 21 years of age. Benefits are generally based upon years of service and the employees compensation. The Company funds pension costs in accordance with the funding provisions of the Employee Retirement Income Security Act. The Company has frozen the plan benefits for all participants effective December 31, 2010. The following table presents the components of net periodic benefit for the three months ended March 31, 2014 and 2013 (dollars in thousands):

	Three months ended March 31	
(dollars in thousands)	**2014**	**2013**
Interest cost	$ 56	$ 56
Expected return on plan assets	(99)	(101)
Amortization of prior service cost	1	
Recognized net actuarial loss	3	17
Net periodic benefit	$ (39)	$ (28)

As of March 31, 2014, there had been no employer contributions for the plan year. The Company is considering terminating the pension plan in the future. No determination has been made and the Company has not determined the financial impact of the termination of the plan.

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Item 2. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

The following discussion and analysis of the financial condition at March 31, 2014 and results of operations of Community Bankers Trust Corporation (the Company) for the three months ended March 31, 2014 should be read in conjunction with the Company s consolidated financial statements and the accompanying notes to consolidated financial statements included in this report and in the Company s Annual Report on Form 10-K for the year ended December 31, 2013.

OVERVIEW

Community Bankers Trust Corporation (the Company) is a bank holding company that was originally incorporated in 2005. On January 1, 2014, the Company completed a reincorporation from Delaware, its original state of incorporation, to Virginia. The form of the reincorporation was the merger of the then existing Delaware corporation into a newly created Virginia corporation. The Company retained the same name and conducts business in the same manner as before the reincorporation.

The Company is headquartered in Richmond, Virginia and is the holding company for Essex Bank (the Bank), a Virginia state bank with 21 full-service offices, 14 of which are in Virginia and seven of which are in Maryland. The Bank also operates two loan production offices in Virginia. The Company relocated its corporate headquarters on March 31, 2014. The Bank opened a new branch office in Annapolis, Maryland on March 25, 2014 and a branch office at its new headquarters in Richmond, Virginia on April 7, 2014.

The Bank was established in 1926. The Bank engages in a general commercial banking business and provides a wide range of financial services primarily to individuals and small businesses, including individual and commercial demand and time deposit accounts, commercial and industrial loans, consumer and small business loans, real estate and mortgage loans, investment services, on-line and mobile banking products, and safe deposit box facilities.

The Company generates a significant amount of its income from the net interest income earned by the Bank. Net interest income is the difference between interest income and interest expense. Interest income depends on the amount of interest earning assets outstanding during the period and the interest rates earned thereon. The Company s cost of funds is a function of the average amount of interest bearing deposits and borrowed money outstanding during the period and the interest rates paid thereon. The quality of the assets further influences the amount of interest income lost on nonaccrual loans and the amount of additions to the allowance for loan losses. Additionally, the Bank earns noninterest income from service charges on deposit accounts and other fee or commission-based services and products. Other sources of noninterest income can include gains or losses on securities transactions, gains from loan sales, transactions involving bank-owned property, and income from Bank Owned Life Insurance (BOLI) policies. The Company s income is offset by noninterest expense, which consists of salaries and benefits, occupancy and equipment costs, professional fees, the amortization of intangible assets and other operational expenses. The provision for loan losses and income taxes may materially affect net income.

CAUTION ABOUT FORWARD-LOOKING STATEMENTS

The Company makes certain forward-looking statements in this report that are subject to risks and uncertainties. These forward-looking statements include statements regarding our profitability, liquidity, allowance for loan losses, interest rate sensitivity, market risk, future strategy, and financial and other goals. These forward-looking statements are generally identified by phrases such as the Company expects, the Company believes or words of similar import.

These forward-looking statements are subject to significant uncertainties because they are based upon or are affected by factors, including, without limitation, the effects of and changes in the following:

- the quality or composition of the Company s loan or investment portfolios, including collateral values and the repayment abilities of borrowers and issuers;

- assumptions that underlie the Company s allowance for loan losses;

general economic and market conditions, either nationally or in the Company s market areas;

the interest rate environment;

competitive pressures among banks and financial institutions or from companies outside the banking industry;

real estate values;

the demand for deposit, loan, and investment products and other financial services;

the demand, development and acceptance of new products and services;

the performance of vendors or other parties with which the Company does business;

time and costs associated with de novo branching, acquisitions, dispositions and similar transactions;

the realization of gains and expense savings from acquisitions, dispositions and similar transactions;

assumptions and estimates that underlie the accounting for loan pools under the shared-loss agreements;

consumer profiles and spending and savings habits;

levels of fraud in the banking industry;

the level of attempted cyber attacks in the banking industry;

the securities and credit markets;

costs associated with the integration of banking and other internal operations;

the soundness of other financial institutions with which the Company does business;

inflation;

technology; and

legislative and regulatory requirements.

These factors and additional risks and uncertainties are described in the Company s Annual Report on Form 10-K for the year ended December 31, 2013 and other reports filed from time to time by the Company with the Securities and Exchange Commission.

Although the Company believes that its expectations with respect to the forward-looking statements are based upon reliable assumptions within the bounds of its knowledge of its business and operations, there can be no assurance that actual results, performance or achievements of the Company will not differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements.

CRITICAL ACCOUNTING POLICIES

The Company s financial statements are prepared in accordance with accounting principles generally accepted in the United States (GAAP). The financial information contained within the statements is, to a significant extent, financial information that is based on measures of the financial effects of transactions and events that have already

occurred. A variety of factors could affect the ultimate value that is obtained when either earning income, recognizing an expense, recovering an asset or relieving a liability. For example, the Company uses historical loss factors as one factor in determining the inherent loss that may be present in its loan portfolio. Actual losses could differ significantly from the historical factors that the Company uses. In addition, GAAP itself may change from one previously acceptable method to another method. Although the economics of the Company s transactions would be the same, the timing of events that would impact its transactions could change.

The following is a summary of the Company s critical accounting policies that are highly dependent on estimates, assumptions and judgments.

Allowance for Loan Losses on Non-covered Loans

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance is an amount that management believes is appropriate to absorb estimated losses relating to specifically identified loans, as well as probable credit losses inherent in the balance of the loan portfolio, based on an evaluation of the collectability of existing loans and prior loss experience. This quarterly evaluation also takes into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrower s ability to pay. This evaluation does not include the effects of expected losses on specific loans or groups of loans that are related to future events or expected changes in economic conditions. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Bank s allowance for loan losses and may require the Bank to make additions to the allowance based on their judgment about information available to them at the time of their examinations.

The allowance consists of specific and general components. For loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors.

A loan is considered impaired when, based on current information and events, management believes that it is more likely than not that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, availability of current financial information, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower s prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of the expected future cash flows discounted at the loan s effective interest rate, the loan s obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment disclosures.

Accounting for Certain Loans or Debt Securities Acquired in a Transfer

FASB ASC 310, *Receivables,* requires acquired loans to be recorded at fair value and prohibits carrying over valuation allowances in the initial accounting for acquired impaired loans. Loans carried at fair value, mortgage loans held for sale, and loans to borrowers in good standing under revolving credit arrangements are excluded from the scope of FASB ASC 310, which limits the yield that may be accreted to the excess of the undiscounted expected

cash flows over the investor s initial investment in the loan. The excess of the contractual cash flows over expected cash flows may not be recognized as an adjustment of yield. Subsequent increases in cash flows to be collected are recognized prospectively through an adjustment of the loan s yield over its remaining life. Decreases in expected cash flows are recognized as impairments through allowance for loan losses.

The Company s acquired loans from the Suburban Federal Savings Bank (SFSB) transaction (the covered loans), subject to FASB ASC Topic 805, *Business Combinations* (formerly SFAS 141(R)), are recorded at fair value and no separate valuation allowance was recorded at the date of acquisition. FASB ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*, applies to loans acquired in a transfer with evidence of deterioration of credit quality for which it is probable, at acquisition, that the investor will be unable to collect all contractually required payments receivable. The Company is applying the provisions of FASB ASC 310-30 to all loans acquired in the SFSB transaction. The Company has grouped loans together based on common risk characteristics including product type, delinquency status and loan documentation requirements among others.

The covered loans are subject to the credit review standards described above for non-covered loans. If and when credit deterioration occurs subsequent to the date that the covered loans were acquired, a provision for credit loss for covered loans will be charged to earnings for the full amount without regard to the shared-loss agreements.

The Company has made an estimate of the total cash flows it expects to collect from each pool of loans, which includes undiscounted expected principal and interest. The excess of that amount over the fair value of the pool is referred to as accretable yield. Accretable yield is recognized as interest income on a constant yield basis over the life of the pool. The Company also determines each pool s contractual principal and contractual interest payments. The excess of that amount over the total cash flows that it expects to collect from the pool is referred to as nonaccretable difference, which is not accreted into income. Judgmental prepayment assumptions are applied to both contractually required payments and cash flows expected to be collected at acquisition. Over the life of the loan or pool, the Company continues to estimate cash flows expected to be collected. Subsequent decreases in cash flows expected to be collected over the life of the pool are recognized as an impairment in the current period through the allowance for loan losses. Subsequent increases in expected or actual cash flows are first used to reverse any existing valuation allowance for that loan or pool. Any remaining increase in cash flows expected to be collected is recognized as an adjustment to the accretable yield with the amount of periodic accretion adjusted over the remaining life of the pool.

FDIC Indemnification Asset

The Company is accounting for the shared-loss agreements as an indemnification asset pursuant to the guidance in FASB ASC 805, *Business Combinations*. The FDIC indemnification asset is required to be measured in the same manner as the asset or liability to which it relates. The FDIC indemnification asset is measured separately from the covered loans and other real estate owned assets (OREO) because it is not contractually embedded in the covered loan and OREO assets and is not transferable should the Company choose to dispose of them. Fair value was estimated using projected cash flows available for loss sharing based on the credit adjustments estimated for each loan pool and OREO and the loss sharing percentages outlined in the shared-loss agreements. These cash flows were discounted to reflect the uncertainty of the timing and receipt of the loss sharing reimbursement from the FDIC.

Because the acquired loans are subject to shared-loss agreements and a corresponding indemnification asset exists to represent the value of expected payments from the FDIC, increases and decreases in loan accretable yield due to changing loss expectations will also have an impact to the valuation of the FDIC indemnification asset. Improvement in loss expectations will typically increase loan accretable yield and decrease the value of the FDIC indemnification asset and, in some instances, result in an amortizable premium on the FDIC indemnification asset. Increases in loss expectations will typically be recognized as impairment in the current period through allowance for loan losses while resulting in additional noninterest income for the amount of the increase in the FDIC indemnification asset.

Other Intangible Assets

The Company is accounting for other intangible assets in accordance with FASB ASC 350, *Intangibles - Goodwill and Others*. Under FASB ASC 350, acquired intangible assets (such as core deposit intangibles) are separately recognized if the benefit of the assets can be sold, transferred, licensed, rented, or exchanged, and

amortized over their useful lives The costs of purchased deposit relationships and other intangible assets, based on independent valuation by a qualified third party, are being amortized over their estimated lives. The core deposit intangible is evaluated for impairment in accordance with FASB ASC 350.

Income Taxes

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with unrecognized tax benefits are classified as additional income taxes in the statement of income. Under FASB ASC 740, *Income Taxes,* a valuation allowance is provided when it is more likely than not that some portion of the deferred tax asset will not be realized. In management s opinion, based on a three year taxable income projection, tax strategies which would result in potential securities gains and the effects of off-setting deferred tax liabilities, it is more likely than not that the deferred tax assets are realizable.

The Company and its subsidiaries are subject to U. S. federal income tax as well as various state income taxes. All years from 2010 through 2013 are open to examination by the respective tax authorities.

Other Real Estate Owned

Real estate acquired through, or in lieu of, loan foreclosure is held for sale and is initially recorded at the fair value at the date of foreclosure net of estimated disposal costs, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of the carrying amount or the fair value less costs to sell. Revenues and expenses from operations and changes in the valuation allowance are included in other operating expenses. Costs to bring a property to salable condition are capitalized up to the fair value of the property while costs to maintain a property in salable condition are expensed as incurred.

RESULTS OF OPERATIONS

Overview

Net income was $1.7 million for the first quarter of 2014 compared with $1.3 million in the first quarter of 2013. Net income available to common shareholders was $1.7 million in the first quarter of 2014 compared with $1.0 million in the first quarter of 2013. Earnings per common share, basic and fully diluted, were $0.08 per share for the first quarter of 2014 compared with $0.05 per share for the first quarter of 2013.

The $399,000 increase in net income year over year was driven by a reduction in non-interest expenses of $533,000, or 5.5%. The most notable decline was evidenced in OREO expense, which equaled only $283,000 for the first quarter of 2014, declining $454,000, or 61.6%, from the same quarter in 2013. Management expects lower OREO expenses throughout 2014 as these properties have been continually re-evaluated and written-down or sold; thereby, expecting no significant deterioration in valuation.

Net Interest Income

The Company s operating results depend primarily on its net interest income, which is the difference between interest income on interest-earning assets, including securities and loans, and interest expense incurred on interest bearing liabilities, including deposits and other borrowed funds. Net interest income is affected by changes in the amount and mix of interest earning assets and interest bearing liabilities, referred to as a volume change. It is also affected by changes in yields earned on interest earning assets and rates paid on interest bearing deposits and other borrowed funds, referred to as a rate change.

For the first quarter of 2014, interest income declined $287,000 from $12.2 million during the first quarter of 2013. Interest income on the non-covered loan portfolio declined $460,000 while interest income on the covered portfolio increased $302,000. The yield on non-covered loans declined 46 basis points to 4.80% at March 31, 2014 from the same period a year ago. Continued competitive pricing for new loans precipitated this decline. The increase in income on covered loans was the direct result of two payments made on an acquisition, development, and construction loan that were treated as cash income as these pools had previously been written down to a zero carrying value. Interest income on the securities portfolio declined $132,000 from the quarter ended March 31, 2014 versus the same quarter a year ago. While the yield on the portfolio remained virtually unchanged, average securities balances were $18.6 million lower in the first quarter of 2014 than the same period in the prior year.

Year over year, interest expense declined $324,000, from $1.9 million in the first quarter of 2013. Interest expense related to interest bearing deposits declined $293,000 or 17.2%. The average balances in these deposits declined $52.9 million year over year. This decline was primarily the result of the sale of the Georgia branches. Meanwhile, the Bank increased its level of FHLB borrowings to fund the sale. Over the same time frame, average FHLB advances increased $27.3 million, yet the expense associated with the borrowings declined $31,000. This was due to a 65 basis point improvement on all FHLB advances to 0.80% for the quarter ended March 31, 2014.

Year over year, net interest income increased slightly by $37,000, or 0.36%, as the Company s net interest margin improved 11 basis points over this time frame. The Company was able to maintain the same yield on its earning asset base at 4.93% while lowering its cost of funding 13 basis points to 0.70% for the quarter ended March 31, 2014. This was the result of improved funding costs related to FHLB advances.

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The following tables set forth, for each category of interest-earning assets and interest bearing liabilities, the average amounts outstanding, the interest earned or paid on such amounts, and the average rate earned or paid for the three months ended March 31, 2014 and 2013. The tables also set forth the average rate paid on total interest bearing liabilities, and the net interest margin on average total interest earning assets for the same periods. Except as indicated in the footnotes, no tax equivalent adjustments were made and all average balances are daily average balances. Any nonaccruing loans have been included in the table, as loans carrying a zero yield.

(dollars in thousands)	Three months ended March 31, 2014			Three months ended March 31, 2013		
	Average Balance Sheet	Interest Income/ Expense	Average Rates Earned/Paid	Average Balance Sheet	Interest Income/ Expense	Average Rates Earned/Paid
ASSETS:						
Loans, non-covered, including fees	$ 595,614	$ 7,051	4.80%	$ 579,635	$ 7,511	5.26%
FDIC covered loans, including fees	72,770	2,961	16.50	82,776	2,659	13.03
Total loans	668,384	10,012	6.08	662,411	10,170	6.23
Interest bearing bank balances	16,309	13	0.31	16,402	8	0.20
Federal funds sold				9,811	2	0.10
Securities (taxable)	279,295	1,698	2.43	300,001	1,838	2.45
Securities (tax exempt)[(1)]	20,038	237	4.71	17,903	225	5.02
Total earning assets	984,026	11,960	4.93	1,006,528	12,243	4.93
Allowance for loan losses	(10,955)			(13,470)		
Non-earning assets	113,705			132,378		
Total assets	1,086,776			1,125,436		
LIABILITIES AND SHAREHOLDERS EQUITY						
Demand interest bearing	$ 190,804	$ 142	0.30%	$ 245,714	$ 191	0.32%
Savings	75,601	66	0.35	78,377	62	0.32
Time deposits	555,867	1,200	0.88	551,125	1,448	1.07
Total deposits	822,272	1,408	0.69	875,216	1,701	0.79
Federal funds purchased	1,134	1	0.51	329	1	0.72
FHLB and other borrowings	81,233	161	0.80	53,938	192	1.45
Total interest bearing liabilities	904,639	1,570	0.70	929,483	1,894	0.83
Noninterest bearing deposits	68,594			75,551		
Other liabilities	3,921			4,117		
Total liabilities	977,154			1,009,151		
Shareholders equity	109,622			116,285		
Total liabilities and shareholders equity	$ 1,086,776			$ 1,125,436		
Net interest earnings		$ 10,390			$ 10,349	
Net interest spread			4.23%			4.10%
Net interest margin			4.28%			4.17%

(1) Income and yields are reported on a tax equivalent basis assuming a federal tax rate of 34%.

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Provision for Loan Losses

Management actively monitors the Company s asset quality and provides specific loss provisions when necessary. Provisions for loan losses are charged to income to bring the total allowance for loan losses to a level deemed appropriate by management of the Company based on such factors as historical credit loss experience, industry diversification of the commercial loan portfolio, the amount of nonperforming loans and related collateral, the volume growth and composition of the loan portfolio, current economic conditions that may affect the borrower s ability to pay and the value of collateral, the evaluation of the loan portfolio through the internal loan review function and other relevant factors. See *Allowance for Loan Losses on Non-covered Loans* in the Critical Accounting Policies section above for further discussion.

Loans are charged-off against the allowance for loan losses when appropriate. Although management believes it uses the best information available to make determinations with respect to the provision for loan losses, future adjustments may be necessary if economic conditions differ from the assumptions used in making the initial determinations.

Management also actively monitors its covered loan portfolio for impairment and necessary loan loss provisions. Provisions for covered loans may be necessary due to a change in expected cash flows or an increase in expected losses within a pool of loans.

The Company did not record a provision for loan losses in either the first quarter of 2014 or 2013 with respect to either its non-covered loan portfolio or its FDIC covered loan portfolio. For the non-covered loan portfolio, this was the direct result of continued improvement in loan quality as evidenced by the lowest aggregate amount of net quarterly charge-offs in over four years. The Company s level of classified and impaired loans continues to remain low.

There were net charge-offs of $34,000 in the first quarter of 2014 compared with net charge-offs of $662,000 in the first quarter of 2013. Total charge-offs for the first quarter of 2014 were $152,000 compared with $908,000 in the first quarter of 2013. Recoveries for the first quarter of 2014 were $118,000 compared with $246,000 in the first quarter of 2013.

Noninterest Income

Year over year, noninterest income decreased $25,000, or 1.9%, from first quarter of 2013. Service charges on deposit accounts declined $174,000, or 26.2%, year over year due mostly to the sale of the Georgia branches. The reduction in service charge income was partially offset by increases in securities gains as well as gains on the sale of loans. Securities gains during the first quarter of 2014 were $77,000 higher than the same period in 2013. Management sold USDA loans resulting in $48,000 of gains for the quarter versus no loan sale gains in the first quarter of 2013.

Noninterest Expense

Noninterest expenses declined $533,000, or 5.5%, when comparing the first quarter of 2014 to the same period in 2013. The single largest decline was evidenced in OREO expenses. These expenses declined from $737,000 in the first quarter of 2013 to $283,000 in the first quarter of 2014. The overall OREO portfolio has been marked accordingly and fewer losses are expected for the rest of 2014.

Income Taxes

Income tax expense was $709,000 for the three months ended March 31, 2014, compared with income tax expense of $563,000 in the first quarter of 2013.

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FINANCIAL CONDITION

General

During the first quarter of 2014, total assets increased $12.2 million to $1.102 billion at March 31, 2014. Total loans were $665.5 million at March 31, 2014, decreasing $4.0 million since December 31, 2013. Total non-covered loans were $593.8 million at March 31, 2014 and $596.3 million at December 31, 2013. While originated non-covered loan growth was positive at $4.8 million during the first quarter of 2014, the purchased government guaranteed USDA loan portfolio declined approximately $7.4 million from year end. This decline was the result of a combination of pre-payments on USDA loans as well as management selling USDA loans at gains to mitigate the acceleration of loan premiums and optimize yield.

The Company s securities portfolio, excluding equity securities, increased $3.6 million, or 1.2%, from $294.3 million at December 31, 2013 to $298.0 million at March 31, 2014. Realized gains of $355,000 occurred during the first quarter of 2014 through sales and call activity. The SBA floating rate portion of the investment portfolio evidenced some unforeseen pre-payment activity during the first quarter, which resulted in the acceleration of unamortized premiums paid on these securities. Subsequently, management sold additional SBA floating rate securities to mitigate the pre-payment anomaly and sold some longer term municipal securities. This was a strategic decision to mitigate duration risk in the municipal portfolio.

The Company had cash and cash equivalents of $38.9 million and $23.8 million at March 31, 2014 and December 31, 2013, respectively. There were no Federal funds purchased or securities sold under agreement to repurchase (repos) at March 31, 2014 versus $6.0 million of repos at December 31, 2013.

The Company is required to account for the effect of market changes in the value of securities available-for-sale (AFS) under FASB ASC 320, *Investments Debt and Equity Securities*. The market value of the AFS portfolio was $271.3 million at March 31, 2014 and $265.8 million at December 31, 2013. At March 31, 2014, the Company had a net unrealized loss on the AFS portfolio of $2.6 million compared with a net unrealized loss of $6.0 million at December 31, 2013.

Interest bearing deposits at March 31, 2014 were $831.2 million, an increase of $9.0 million from December 31, 2013. Total time deposits increased $13.8 million, or 2.5%, during the first quarter of 2014. NOW and MMDA account balances declined $3.5 and $3.1 million, respectively, during the first quarter. The increase in time deposits was generated by two promotions that management ran during the first quarter of 2014. These were efforts to replace brokered time deposits obtained during the fourth quarter of 2013 to replace the sale of the Georgia deposit base.

FHLB advances were $76.9 million at March 31, 2014 compared with $77.1 million at December 31, 2013. The blended rate on the average balance of these borrowings was 0.67% during the first quarter of 2014, down from 1.29% for the same period in 2013.

Shareholders equity was $110.6 million at March 31, 2014 and $106.7 million at December 31, 2013. The change in equity was driven by earnings retention as well as a $2.2 million reduction of unrealized gains and losses in the investment portfolio reflected in other comprehensive income.

Asset Quality non-covered assets

The allowance for loan losses represents management s estimate of the amount appropriate to provide for probable losses inherent in the loan portfolio.

Non-covered loan quality is continually monitored, and the Company s management has established an allowance for loan losses that it believes is appropriate for the risks inherent in the loan portfolio. Among other factors, management considers the Company s historical loss experience, the size and composition of the loan portfolio, the value and appropriateness of collateral and guarantors, nonperforming loans and current and anticipated economic conditions. There are additional risks of future loan losses, which cannot be precisely

quantified nor attributed to particular loans or classes of loans. Because those risks include general economic trends, as well as conditions affecting individual borrowers, the allowance for loan losses is an estimate. The allowance is also subject to regulatory examinations and determination as to appropriateness, which may take into account such factors as the methodology used to calculate the allowance and size of the allowance in comparison to peer companies identified by regulatory agencies. See *Allowance for Loan Losses on Non-covered Loans* in the Critical Accounting Policies section above for further discussion.

The Company maintains a list of non-covered loans that have potential weaknesses and thus may need special attention. This loan list is used to monitor such loans and is used in the determination of the appropriateness of the allowance for loan losses. Non-covered nonperforming assets totaled $18.1 million at March 31, 2014 and net charge-offs were $34,000 for the three months ended March 31, 2014. This compares with nonperforming assets of $18.3 million and net charge-offs of $2.5 million at and for the year ended December 31, 2013.

Nonperforming non-covered loans were $12.6 million at March 31, 2014 compared to $12.1 million at December 31, 2013. The $540,000 increase from December 31, 2013 was the net result of $1.4 million in additions to nonaccrual loans and $836,000 in reductions. With respect to the reductions to nonaccrual loans, $400,000 were returned to accruing status, $113,000 were charged off, and $323,000 were the result of payments to existing credits.

The allowance for loan losses equaled 82.33% of non-covered nonaccrual loans at March 31, 2014 compared with 86.28% at December 31, 2013. The ratio of the allowance for loan losses to total nonperforming assets was 57.56% at March 31, 2014 compared with 56.92% at December 31, 2013. The ratio of nonperforming assets to loans and OREO continued to decline. The ratio was 3.02% at March 31, 2014 and 3.05% at December 31, 2013.

In accordance with GAAP, an individual loan is impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due in accordance with contractual terms of the loan agreement. The Company considers all troubled debt restructured and nonaccrual loans to be impaired loans. In addition, the Company reviews all substandard and doubtful loans that are not on nonaccrual status, as well as loans with other risk characteristics, pursuant to and specifically for compliance with the accounting definition of impairment as described above. These impaired loans have been determined through analysis, appraisals, or other methods used by management.

See Note 3 to the Company s financial statements for information related to the allowance for loan losses. At March 31, 2014 and December 31, 2013, total impaired non-covered loans equaled $14.4 million and $13.8 million, respectively.

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The following table sets forth selected asset quality data, excluding FDIC covered assets, and ratios for the dates indicated (dollars in thousands):

	March 31, 2014	December 31, 2013
Nonaccrual loans	$ 12,645	$ 12,105
Loans past due 90 days and accruing interest		
Total nonperforming non-covered loans	12,645	12,105
OREO non-covered	5,439	6,244
Total nonperforming non-covered assets	$ 18,084	$ 18,349
Accruing troubled debt restructure loans	$ 7,567	$ 9,922
Balances		
Specific reserve on impaired loans	2,079	1,604
General reserve related to unimpaired loans	8,331	8,840
Total allowance for loan losses	10,410	10,444
Average loans during quarter, net of unearned income	595,614	585,461
Impaired loans	14,429	13,801
Non-impaired loans	579,181	582,372
Total loans, net of unearned income	593,610	596,173
Ratios		
Allowance for loan losses to loans	1.75%	1.75%
Allowance for loan losses to nonperforming assets	57.56	56.92
Allowance for loan losses to nonaccrual loans	82.33	86.28
General reserve to non-impaired loans	1.44	1.52
Nonperforming assets to loans and OREO	3.02	3.05
Net charge-offs for quarter to average loans, annualized	0.02	0.14

The Company performs troubled debt restructures (TDR) and other various loan workouts whereby an existing loan may be restructured into multiple new loans. At March 31, 2014, the Company had 17 loans that met the definition of a TDR, which are loans that for reasons related to the debtor s financial difficulties have been restructured on terms and conditions that would otherwise not be offered or granted. Four of these loans were restructured using multiple new loans. The aggregated outstanding principal of TDR loans at March 31, 2014 was $8.7 million, of which $1.1 million were classified as nonaccrual.

The primary benefit of the restructured multiple loan workout strategy is to maximize the potential return by restructuring the loan into a good loan (the A loan) and a bad loan (the B loan). The impact on interest is positive because the Bank is collecting interest on the A loan rather than potentially not collecting interest on the entire original loan structure. The A loan is underwritten pursuant to the Bank s standard requirements and graded accordingly. The B loan is classified as either doubtful or loss . An impairment analysis is performed on the B loan and, based on its results, all or a portion of the B note is charged-off or a specific loan loss reserve is established.

The Company does not modify its nonaccrual policies in this arrangement, and the A loan and the B loan stand on their own terms. At inception, this structure meets the definition of a TDR. If the loan is on nonaccrual at the time of restructure, the A loan is held on nonaccrual until six consecutive payments have been received, at which time it may be put back on an accrual status. The B loan is placed on nonaccrual. Under the terms of each loan, the borrower s payment is contractually due.

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A further breakout of nonaccrual loans, excluding covered loans, at March 31, 2014 and December 31, 2013 is below (dollars in thousands):

	March 31, 2014	December 31, 2013
Mortgage loans on real estate:		
Residential 1-4 family	$ 4,153	$ 4,229
Commercial	2,208	1,382
Construction and land development	5,907	5,882
Second mortgages	225	225
Multifamily		
Agriculture		205
Total real estate loans	12,493	11,923
Commercial loans	57	127
Consumer installment loans	95	55
All other loans		
Total loans	$ 12,645	$ 12,105

At March 31, 2014, the Company had eight construction and land development credit relationships in nonaccrual status. The borrowers for all of these relationships are residential land developers. All of the relationships are secured by the real estate to be developed and are in the Company s central Virginia market. The total amount of the credit exposure outstanding at March 31, 2014 was $5.9 million. These loans have either been written down or sufficiently reserved against to equal the current expected realizable value.

There were no charge-offs related to these relationships during the first three months of 2014. The total amount of the allowance for loan losses attributed to all eight relationships was $514,000 at March 31, 2014, or 8.7% of the total credit exposure outstanding. The Company establishes its reserves as described above in *Allowance for Loan Losses on Non-covered Loans* in the Critical Accounting Policies section. In conjunction with the impairment analysis the Company performs as part of its allowance methodology, the Company ordered appraisals for all loans with balances in excess of $250,000 unless there existed an appraisal that was not older than 12 months. The Company orders an automated valuation for balances between $100,000 and $250,000 and uses a ratio analysis for balances less than $100,000. The Company maintains detailed analysis and other information for its allowance methodology, both for internal purposes and for review by its regulators.

Asset Quality covered assets

Loans accounted for under FASB ASC 310-30 are generally considered accruing and performing loans as the loans accrete interest income over the estimated life of the loan. Accordingly, acquired impaired loans that are contractually past due are still considered to be accruing and performing loans.

The Company makes an estimate of the total cash flows that it expects to collect from a pool of covered loans, which include undiscounted expected principal and interest. Over the life of the loan or pool, the Company continues to estimate cash flows expected to be collected. Subsequent decreases in cash flows expected to be collected over the life of the pool are recognized as impairment in the current period through the allowance for loan losses. Subsequent increases in expected cash flows are first used to reverse any existing valuation allowance for that loan or pool. Any remaining increase in cash flows expected to be collected is recognized as an adjustment to the yield over the remaining life of the pool.

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Capital Requirements

The determination of capital adequacy depends upon a number of factors, such as asset quality, liquidity, earnings, growth trends and economic conditions. The Company seeks to maintain a strong capital base to support its growth and expansion plans, provide stability to current operations and promote public confidence in the Company.

The federal banking regulators have defined three tests for assessing the capital strength and adequacy of banks, based on two definitions of capital. Tier 1 capital is defined as common equity, retained earnings and qualifying perpetual preferred stock, less certain intangibles. Tier 2 capital is defined as specific subordinated debt, some hybrid capital instruments and other qualifying preferred stock and a limited amount of the loan loss allowance. Total capital is defined as tier 1 capital plus tier 2 capital. Three risk-based capital ratios are computed using the above capital definitions, total assets and risk-weighted assets and are measured against regulatory minimums to ascertain adequacy. All assets and off-balance sheet risk items are grouped into categories according to degree of risk and assigned a risk-weighting and the resulting total is risk-weighted assets. Tier 1 risk-based capital is tier 1 capital divided by risk-weighted assets. Total risk-based capital is total capital divided by risk-weighted assets. The leverage ratio is tier 1 capital divided by total average assets.

The Company s ratio of total risk-based capital was 17.3% at March 31, 2014 compared with 16.8% at December 31, 2013. The tier 1 risk-based capital ratio was 16.1% at March 31, 2014 and 15.6% at December 31, 2013. The Company s tier 1 leverage ratio was 10.1% at March 31, 2014 and 9.5% at December 31, 2013. All capital ratios exceed regulatory minimums. In the fourth quarter of 2003, BOE issued trust preferred subordinated debt that qualifies as regulatory capital. This trust preferred debt, which has been assumed by the Company, has a 30-year maturity with a 5-year call option and was issued at a rate of three month LIBOR plus 3.0%. The weighted average cost of this instrument was 3.25% during the three months ended March 31, 2014.

The Company issued shares of Series A Preferred Stock to the United States Department of the Treasury in connection with the Company s participation in the Treasury s TARP Capital Purchase Program in December 2008. As of March 31, 2014, the Company was current in its payment of dividends with respect to the Series A Preferred Stock.

During 2013, the Company repurchased 7,000 shares of the original 17,680 shares of Series A Preferred Stock. The Company funded the repurchase through the earnings of its banking subsidiary.

On April 23, 2014, the Company repurchased the remaining 10,680 shares of Series A Preferred Stock. The Company funded the repurchase through a term loan with SunTrust Bank. The form of the repurchase was a redemption under the terms of the TARP preferred stock. The Company paid the Treasury $10.9 million, which represented 100% of the par value of the preferred stock repurchased plus accrued dividends with respect to such shares.

The term loan with SunTrust Bank, which has a maturity date of April 21, 2017, requires that the Company make quarterly payments of 7.5% of the initial outstanding principal, plus accrued interest, during a six-quarter period beginning with the quarter ending December 31, 2014, quarterly payments of 10% of the initial outstanding principal, plus accrued interest, during the subsequent four-quarter period and the remaining principal amount and accrued interest at maturity. As elected by the Company, the initial interest rate on the loan is three-month LIBOR plus 3.50% per annum.

The Treasury continues to hold a warrant to purchase 780,000 shares of the Company s common stock at an exercise price of $3.40.

Liquidity

Liquidity represents the Company s ability to meet present and future financial obligations through either the sale or maturity of existing assets or the acquisition of additional funds through liability management. Liquid assets include cash, interest bearing deposits with banks, federal funds sold and certain investment securities. As a result of

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the Company s management of liquid assets and the ability to generate liquidity through liability funding, management believes that the Company maintains overall liquidity sufficient to satisfy its depositors requirements and meet its customers credit needs.

The Company s results of operations are significantly affected by its ability to manage effectively the interest rate sensitivity and maturity of its interest earning assets and interest bearing liabilities. A summary of the Company s liquid assets at March 31, 2014 and December 31, 2013 was as follows (dollars in thousands):

	March 31, 2014	December 31, 2013
Cash and due from banks	$ 11,139	$ 10,857
Interest bearing bank deposits	27,782	12,978
Available for sale securities, at fair value, unpledged	215,553	185,278
Total liquid assets	$ 254,474	$ 209,113
Deposits and other liabilities	991,055	982,873
Ratio of liquid assets to deposits and other liabilities	25.68%	21.28%

Off-Balance Sheet Arrangements and Contractual Obligations

A summary of the contract amount of the Company s exposure to off-balance sheet and balance sheet risk as of March 31, 2014 and December 31, 2013, is as follows (dollars in thousands):

	March 31, 2014	December 31, 2013
Commitments with off-balance sheet risk:		
Commitments to extend credit	$ 69,433	$ 72,183
Standby letters of credit	7,202	9,978
Total commitments with off-balance sheet risks	$ 76,635	$ 82,161
Commitments with balance sheet risk:		
Loans held for sale	$	$ 100
Total commitments with balance sheet risks		100
Total commitments	$ 76,635	$ 82,261

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer s credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management s credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property and equipment, and income-producing commercial properties. Unfunded commitments under lines of credit are commitments for possible future extensions of credit to existing customers. Those lines of credit may be drawn upon only to the total extent to which the Company is committed.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to clients. The Company holds certificates of deposit, deposit accounts, and real estate as collateral supporting those commitments for which collateral is deemed necessary.

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Item 3. ***Quantitative and Qualitative Disclosures About Market Risk***

Market risk is the risk of loss in a financial instrument arising from adverse changes in market rates or prices such as interest rates, foreign currency exchange rates, commodity prices and equity prices. The Company s primary market risk exposure is interest rate risk. The ongoing monitoring and management of interest rate risk is an important component of the Company s asset/liability management process, which is governed by policies established by its Board of Directors that are reviewed and approved annually. The Board of Directors delegates responsibility for carrying out asset/liability management policies to the Asset/Liability Committee (ALCO of the Bank. In this capacity, ALCO develops guidelines and strategies that govern the Company s asset/liability management related activities, based upon estimated market risk sensitivity, policy limits and overall market interest rate levels and trends.

Interest rate risk represents the sensitivity of earnings to changes in market interest rates. As interest rates change, the interest income and expense streams associated with the Company s financial instruments also change, affecting net interest income, the primary component of the Company s earnings. ALCO uses the results of a detailed and dynamic simulation model to quantify the estimated exposure of net interest income to sustained interest rate changes. While ALCO routinely monitors simulated net interest income sensitivity over various periods, it also employs additional tools to monitor potential longer-term interest rate risk.

The simulation model captures the impact of changing interest rates on the interest income received and interest expense paid on all assets and liabilities reflected on the Company s balance sheet. The simulation model is prepared and updated monthly. This sensitivity analysis is compared to ALCO policy limits, which specify a maximum tolerance level for net interest income exposure over a one-year horizon, assuming no balance sheet growth, given a 200 basis point upward shift and a 200 basis point downward shift in interest rates. A parallel shift in rates over a 12-month period is assumed. The following table represents the change to net interest income given interest rate shocks up and down 100 and 200 basis points at March 31, 2014:

	Change in net interest income	
	%	$
Change in Yield curve		
+200 bp	(0.9)%	$ (359)
+100 bp	(1.0)	(393)
most likely	0	
100 bp	1.2	475
200 bp	(1.1)	(428)

At March 31, 2014, the Company s interest rate risk model indicated that, in a rising rate environment of 200 basis points over a 12 month period, net interest income could decrease by 0.9%. For the same time period, the interest rate risk model indicated that in a declining rate environment of 200 basis points, net interest income could decrease by 1.1%. While these percentages are subjective based upon assumptions used within the model, management believes the balance sheet is appropriately balanced with acceptable risk to changes in interest rates.

The preceding sensitivity analysis does not represent a forecast and should not be relied upon as being indicative of expected operating results. These hypothetical estimates are based upon numerous assumptions, including the nature and timing of interest rate levels such as yield curve shape, prepayments on loans and securities, deposit decay rates, pricing decisions on loans and deposits, reinvestment or replacement of asset and liability cash flows. While assumptions are developed based upon current economic and local market conditions, the Company cannot make any assurances about the predictive nature of these assumptions, including how customer preferences or competitor influences might change.

Also, as market conditions vary from those assumed in the sensitivity analysis, actual results will also differ due to factors such as prepayment and refinancing levels likely deviating from those assumed, the varying impact of interest rate change, caps or floors on adjustable rate assets, the potential effect of changing debt service levels on customers with adjustable rate loans, depositor early withdrawals and product preference changes, and other internal and external variables. Furthermore, the sensitivity analysis does not reflect actions that ALCO might take in response to, or in anticipation of, changes in interest rates.

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Item 4. ***Controls and Procedures***
Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Form 10-Q, the Company s management, with the participation of the Company s chief executive officer and its chief financial officer (the Certifying Officers), conducted evaluations of the Company s disclosure controls and procedures. As defined under Section 13a-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act), the term disclosure controls and procedures means controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer s management, including the Certifying Officers, to allow timely decisions regarding required disclosures.

Based on this evaluation, the Certifying Officers have concluded that the Company s disclosure controls and procedures were effective to ensure that material information is recorded, processed, summarized and reported by management of the Company on a timely basis in order to comply with the Company s disclosure obligations under the Exchange Act and the rules and regulations promulgated under it.

Internal Control over Financial Reporting

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company s internal control over financial reporting is a process designed under the supervision of the Certifying Officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company s financial statements for external purposes in accordance with generally accepted accounting principles. There were no changes in the Company s internal control over financial reporting identified in connection with the evaluation of it that occurred during the Company s last fiscal quarter that materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. ***Legal Proceedings***

There are no material pending legal proceedings, other than ordinary routine litigation incidental to the Company s business, to which the Company, including its subsidiaries, is a party or of which the property of the Company is subject.

Item 1A. ***Risk Factors***

As of the date of this report, there were no material changes to the risk factors previously disclosed in the Company s Annual Report on Form 10-K for the year ended December 31, 2013.

Item 2. ***Unregistered Sales of Equity Securities and Use of Proceeds***

None.

Item 3. ***Defaults upon Senior Securities***

None.

Item 4. ***Mine Safety Disclosures***

Not applicable

Item 5. ***Other Information***

None.

Item 6. ***Exhibits***

Exhibit No.	Description
31.1	Rule 13a-14(a)/15d-14(a) Certification for Chief Executive Officer*
31.2	Rule 13a-14(a)/15d-14(a) Certification for Chief Financial Officer*
32.1	Section 1350 Certifications*
101	Interactive Data File with respect to the following materials from the Company s Quarterly Report on Form 10-Q for the period ended March 31, 2014, formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheets, (ii) the Unaudited Consolidated Statements of Income, (iii) the Unaudited Consolidated Statements of Comprehensive Income, (iv) the Unaudited Consolidated Statements of Shareholders Equity, (v) the Unaudited Consolidated Statements of Cash Flows, and (vi) Notes to Unaudited Consolidated Financial Statements*

* Filed herewith.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COMMUNITY BANKERS TRUST CORPORATION
(Registrant)

/s/ Rex L. Smith, III
Rex L. Smith, III
President and Chief Executive Officer
(principal executive officer)

Date: May 9, 2014

/s/ Bruce E. Thomas
Bruce E. Thomas
Executive Vice President and Chief Financial Officer
(principal financial officer)

Date: May 9, 2014